

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, March 22, 1960, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Bopp
Mr. Bryan
Mr. Fulton
Mr. Leedy
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak

Messrs. Leach, Allen, Irons, and Mangels, Alternate Members of the Federal Open Market Committee

Messrs. Erickson, Johns, and Deming, Presidents of the Federal Reserve Banks of Boston, St. Louis, and Minneapolis, respectively

Mr. Young, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hexter, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Brandt, Eastburn, Hostetler, Marget, Noyes, Roosa, and Tow, Associate Economists

Mr. Molony, Assistant to the Board of Governors
Mr. Koch, Adviser, Division of Research and Statistics, Board of Governors
Mr. Keir, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Knipe, Consultant to the Chairman, Board of Governors

Messrs. Ellis, Storrs, Mitchell, and Einzig, Vice Presidents of the Federal Reserve Banks of Boston, Richmond, Chicago, and San Francisco, respectively

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Messrs. Larkin and Arlt, Assistant Vice Presidents of the Federal Reserve Banks of New York and St. Louis, respectively

Messrs. Parsons and Coldwell, Directors of Research of the Federal Reserve Banks of Minneapolis and Dallas, respectively

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

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on March 1, 1960, were approved.

Before this meeting there had been distributed to the members of the Committee a report of open market operations covering the period March 1 through March 16, 1960, and a supplementary report covering the period of March 17 through March 21, 1960. Copies of both reports have been placed in the files of the Committee.

Supplementing the written reports, Mr. Larkin made substantially the following comments on developments since the preceding Committee meeting:

The sharp downward movement in interest rate levels has been by far the most significant development in the money and capital markets since the last meeting of the Committee.

The decline in Treasury bill rates was typified by the results of yesterday's auction compared with those in the auction the day before the Committee's last meeting. Yesterday a rate of 3.03 per cent was established for the new 91-day bills and a rate of 3.17 per cent for the 182-day bills. I understand that the new 91-day bills are quoted in the market this morning at 3 per cent or slightly lower. Three weeks ago, on February 29, the rates established were 4.278 per cent in the auction. In other words, Treasury bill rates have declined nearly 1-1/4 per cent over the past three weeks.

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Prices of notes and bonds were up by as much as $\frac{1}{4}$ points during the interval between meetings. The scarcity of bills spilled some demand for short-term securities over into the certificate and short-dated note and bond area, and yields were about 1 per cent lower on such issues. Of the recent high-coupon issues, the $4\frac{7}{8}$'s of November 1963 were priced to yield 4.06 per cent, and the 5's of November 1964 were priced to yield 4.11 per cent. In the long-term area, the $3\frac{1}{2}$'s of 1990 were at a yield of 4.07 per cent.

With only light trading in long-term Government bonds, there is a high degree of artificiality in the price and yield level of that sector of the capital market. The market for new long-term corporate issues provides a more significant measure of what has happened to rate levels in the long-term area. Recent issues have been reoffered at yields in the $4\frac{3}{4}$ per cent to $4\frac{7}{8}$ per cent range, compared with 5 to $5\frac{1}{8}$ per cent about three weeks ago, or a decline of about $\frac{1}{4}$ per cent. The market has been paying special attention to call and refunding provisions on new corporate issues.

I should also mention that the mid-March dividend and tax period passed without any strain on the banks or on the money market. This was of course partly due to the net supply of reserves by the System through open market operations. Corporations, however, appear to have made careful plans for their tax payments. They liquidated only a relatively minor amount of bills for tax purposes, and generally added to the striking demand for bills over the period.

In response to a question by Mr. Balderston, Mr. Larkin said there seemed to have been a fair amount of stockpiling of bills in preparation for the Cook County personal property tax date (April 1). There was some feeling that after that date a quantity of bills would reach the market.

Mr. Balderston then inquired whether there was evidence of speculation in longer-term Government securities, and Mr. Larkin replied that this was a difficult question to answer. On the basis of comments by dealers as recently as a week ago, there was no strong

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evidence along those lines. In the past week, some mention had been made of that type of buying of Treasury issues, but it could hardly be extensive because the market at the long end is thin and trading relatively small. There were some reports that commercial banks were giving more attention to extending their maturities in order to catch the turn of the market and, while this might be just gossip, mention had been made of some buying by Stock Exchange houses and underwriting houses. As he had indicated, he did not think this kind of activity was extensive, but it was difficult to substantiate an opinion.

In reply to a question by Mr. Robertson, Mr. Larkin said there had been a demand for short-term Treasury securities from State and local governments as well as from corporations.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period March 1 through March 21, 1960, were approved, ratified, and confirmed.

Supplementing the staff memorandum distributed under date of March 18, 1960, Mr. Noyes made the following statement with regard to economic developments:

In the last few weeks every shred of information on the condition of the economy has been examined and re-examined, and interpreted and reinterpreted with the greatest care. In February the money supply dropped by a dramatic billion dollars, but this drop was accompanied by a spectacular rise in deposit turnover. Industrial production slipped off about one per cent. Housing starts were down to a 1,100,000 seasonally adjusted annual rate--off 20 per cent from the peak last spring.

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Short-term money rates declined sharply. The weather was bad, and so were retail sales, and both of these conditions continued into the first two weeks of March. On the other hand, unemployment was down, new orders were up a little, and plant and equipment expenditure expectations reported to the Department of Commerce were equal to earlier optimistic estimates. Erratic movements of stock prices and loans at city banks provided a rationale for almost any theory. Commodity price movements were also mixed, but the changes were small.

It is doubtful that there has ever been a time when all the "straws in the wind" were watched so closely. In these circumstances, it is hard to see how a major fault could remain undetected for long--and yet, careful observers still generally subscribe to the belief that the underlying forces are strong, despite moderate declines in most current measures of activity. Certainly, the customary signs of an overripe boom are not yet apparent.

The question that remains is whether the adjustment of spending and saving patterns incident to a major shift in expectation of inflation might so change the tone of financial and other markets as to set in motion a recessionary spiral. Spokesmen for the Federal Reserve System, more than any other group in the country, have warned of the hidden distortions in the economy that are built up during a long period of more or less continuous inflationary expectations. Win Riefler spelled them out clearly in his paper at Stanford last summer, from which I would like to quote a brief passage:

"The emergence of a pervasive expectation of continuing inflation as a dominant motivating force in investment decisions is relatively new in the experience of this country, even when that experience is carried back through the last century and a quarter to cover the whole period since the opening phases of the Industrial Revolution. That is the reason, perhaps, that we have recently been so slow in recognizing its implications."

It also follows, of course, that we have never before faced the problems incident to a readjustment from such expectations. Certainly, we cannot assume that simply because the elimination of inflationary expectations is a good thing, the process of adjustment will be painless. It could be very painful--we do not know because we do not know how great the distortions were that preceded it. If a sizeable share of the consumer expenditures for durables, including housing, in recent years has been an effort to hedge against inflation, then we may have to adjust to a very different pattern of spending in

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this area in the period ahead. The same thing might be said about business plant and equipment expenditures or inventory policy.

One can find little or nothing in the current data to measure how much of an adjustment of this kind has already occurred or may still lie ahead. The survey of plant and equipment expenditure expectations would seem to suggest that adjustment there will not be very severe, at least initially; that is, unless they are discouraged further by a decline in final demand, businessmen are likely to go forward with their expenditure plans in substantial volume. This may be an important "unless", however, since the largest planned increases were in iron and steel, motor vehicles, and electrical machinery, all of which would be adversely affected if the market for consumer durables should soften.

The only indications we have about prospective consumer demand are the results of the quarterly survey of consumer intentions, which we have been conducting through the Bureau of the Census. In January, consumers appear to have been slightly less enthusiastic about durable goods purchases than they were in October, but still quite a bit more interested than they were a year ago. Taken at their face value, these results would suggest some slackening of demand, but not such as to carry us below year-ago levels. However, these observations were taken about two months ago and consumers' attitudes may well have undergone a further change since that time.

As I suggested at the outset, it is hard to find any significant change in the balance of economic forces during the last three weeks, but the fact that the tempered outlook has continued may have some significance in itself. Certainly, the chance of a booming first half, accompanied by inflationary pressure on resources, has measurably diminished.

Mr. Thomas presented the following statement with regard to the current financial situation:

Financial developments in recent weeks have contained a number of surprises and paradoxes. They appear to be significant for monetary policy formulation, but the exact significance may not yet be clear.

The most striking feature has been the virtual completion of the March period of heavy liquidity needs for tax and dividend payments with an easing rather than tightening

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of money rates that usually occurs in this period. The absence of pressures can be attributed little, if any, to a reduced borrowing demand from business. It may be due in part to Federal Reserve easing actions during the past two weeks, but such measures have not been unusual at this period. An important influence has been the availability of nonbank funds in the money market, but the most important influence may have been the change in the Treasury position from a deficit to a surplus.

The availability of nonbank funds has been a distinctive feature of the past year. Nonbank purchases of Government securities have financed a Treasury deficit and enabled banks to reduce their portfolios in order to meet an unprecedented demand for bank loans with little growth in deposits. Last year, however, such funds were attracted by rising interest rates. Only in recent weeks has the supply been so great that interest rates have declined, and this month has been the first tax period since the recession without strong pressures of cash demands that pushed up interest rates.

Interest rates, on the contrary, have declined sharply and, generally speaking, are at the lowest levels since early last June. The six-month bill rate is the lowest since last March and yields on three-month bills are little above 3 per cent--showing the widest margin below the discount rate since the first half of 1958. Yields on Government securities in the three- to five-year maturity range, which have shown the highest yields of all issues during the past year, are now at the lowest level since last May and only slightly above the average of longer-term issues. Rates on commercial and finance company paper have been lowered in recent weeks but are still higher than last summer. Yields on outstanding State and local government and corporate bonds, which did not rise as much as those on long-term Treasury bonds, have also declined back to around the levels of last June. It may be recalled, however, that last June prevailing rates were considered to be rather high after a sharp rise during the preceding quarter. The discount rate was raised in late May to 3-1/2 per cent to bring it more closely in line with market rates.

Borrowing in capital markets has been moderate. The first-quarter totals of corporate and State and local government issues appear to be less than in other recent years. Mortgage lending activity by savings and loan associations in January and February was reported to be slightly less than a year ago, with the net increase in

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savings accounts about the same as last year. Treasury net repayment of debt during the quarter is larger than in any year since 1956. As I suggested earlier, the change in the Treasury position alone may be adequate to explain the turning downward of interest rate levels. There are few indications of an increase in capital market borrowing in the immediate future, although business and State and local government borrowing should increase somewhat, particularly if interest rates stay down.

Bank loans increased in February somewhat more than is usual for that month, and partial figures for banks in leading cities for March 16 indicate a further rise of close to usual seasonal amounts in the three weeks ending on that day. Loans to business and finance companies increased sharply last week. Loans on securities declined in the three weeks ending March 16, contrary to usual seasonal trends. Real estate loans also declined slightly and "other loans", which include consumer loans, showed little change.

City banks added to their holdings of Treasury bills last week, as they usually do at a time of tax payments, but for the past three weeks as a whole continued to show a net decline in total holdings of Government securities. There have been substantial reductions in bank holdings of securities maturing after five years and also within one to five years. Holdings of other securities have increased somewhat in March. Total loans and investments at city banks increased in the three weeks ending March 16 about as much as in the same period last year but somewhat less than in the three preceding years.

Demand deposits at city banks, and probably also at country banks, increased as usual in the middle week of March, prior to payment of corporate income taxes. Estimates indicate, however, that the trend of deposits, after adjustment for seasonal variations, may have continued to decline, following the sharp decrease in January and February.

Perhaps the most astonishing and perplexing aspect of recent financial developments has been the combination of a relatively strong demand for bank loans, accompanied by liquidation of Government securities by banks to the point of a net reduction in deposits, and at the same time a decline in interest rates. This combination would appear to indicate that the decrease in the money supply has been due not entirely to pressure on banks to liquidate credit but in large part to a desire by holders of cash to shift into Government securities. This is evidence not of a decrease in liquidity, but rather of a shift in liquid holdings from cash to interest-bearing assets. There may even have been a net increase in total liquid holdings.

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The significance of this shift from the standpoint of the current and future course of the economy, and of monetary policies, depends upon its cause. Is it merely a matter of the nature of holdings of liquid assets or does it reflect an increase in savings that are being withdrawn from the flow of spending and investing to be held relatively idle? The sharp seasonally-adjusted increase of about 5 per cent in debits to bank accounts in February would indicate that there has been an increase rather than a reduction in the use of money. As to increased investment of genuine savings in Government securities, dealers report some decline in odd-lot purchases of longer high-coupon Treasury notes as their yields have declined, but this is a relatively recent development.

A large portion of recent acquisitions of Government securities is reported to be by nonfinancial corporations. Continuation of such demands during the tax payment period and along with heavy business borrowing at banks is difficult to explain. It probably means that some corporations are accumulating liquid assets while others are borrowing. More complete understanding of this development must await an analysis of corporate statements, as well as the subsequent actions of corporations.

Federal Reserve operations, after absorbing a portion of the reserves released by the decline in deposits and in required reserves during February, have added to the availability of reserves during March and thus contributed to the decline in interest rates. In the past four weeks, including estimates for the current week, required reserves have increased by a smaller amount than expected on a purely seasonal basis, but currency has shown a larger increase than expected. These increases have absorbed reserves, but reserves have been made available by a reduction in nonmember and other accounts at the Reserve Banks, reflecting principally Federal Reserve payments to the Treasury and Stabilization Fund purchases of bills in the market. System purchases of securities during the period also supplied reserves. These acquisitions amounted to over \$250 million last week, including the net increase in repurchase contracts, but a decline in holdings during the week ending March 2 and retirement of repurchase contracts this week reduced the net gain for four weeks to about \$100 million. As a result of all these changes, net borrowed reserves have generally remained below \$250 million since the week of March 2.

A question for the immediate future is to what extent should System operations be directed toward an endeavor to increase, or at least check the decline in, bank deposits.

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Projections indicate some drain on reserves in the next statement week as a result of the customary decline in float, partly offset by a reduction in required reserves as deposits are reduced by the payment of taxes. In the second week of April, reserves will be needed to cover increased requirements related to Treasury financing and the Easter currency demand. Should reserves be supplied in excess of these needs?

If the decrease in the money supply reflects merely a shifting of liquid assets from cash to securities, attracted by interest returns, it may be checked by System operations which will force down interest rates. Such shifts, however, have little or no effect on the total volume of spending, and forcing excess reserves on banks might stimulate unsound uses of credit. If, however, the decline in money reflects an increase in savings being taken from the spending stream, then some stimulus to bank credit expansion may well be in order. It is not easy to reach a satisfactory answer to these questions. It does seem clear, in any event, that there is no occasion for any tightening of restraints at this time.

Mr. Marget commented as follows with respect to the balance of payments:

At the last meeting of this Committee, I referred to "the changes that seem to be emerging with respect to what might be called the cyclical constellation as between our principal trading partners and ourselves..."--"a strong, inflation-threatening boom abroad, and a moderation, at least, of boom tendencies here." All the news that we have had from abroad in recent weeks confirms the "abroad" part of the story; the boom in virtually all foreign industrialized countries is continuing to gather strength.

This means that if the tendencies toward moderation in this country should continue, we shall also continue to have "just the kind of constellation which, by encouraging exports from this country and moderating the movement of imports into the country, should be favorable to further adjustment in our balance of payments in the direction we desire." This is, in fact, what some of the European authorities are themselves forecasting. In the Netherlands, for example, which ran a very sizeable surplus in their balance of payments in 1959, the Central Planning Bureau has recently forecast a significant decline in the Netherlands surplus for 1960.

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At the same time, all the evidence would indicate that, up to now, the foreign fiscal and monetary authorities are prepared to resist the inflationary pressures that the boom is engendering. The latest example is from Austria. Only about six months ago, it was generally reported that the Austrian authorities were considering lowering the discount rate from $4\frac{1}{2}$ to 4 per cent. The week before last they actually raised the discount rate from $4\frac{1}{2}$ to 5 per cent; and they simultaneously raised minimum reserve ratios against demand and savings deposits.

This does not mean what has been suggested, not only by some journalists, but also by the Governor of the Bank of Norway in a recent speech; namely, that the counter-inflationary measures now being adopted are about to turn the economies of the western European countries, in particular, into a tailspin, so that we shall have a reversal of the cyclical constellation whose emergence we have been witnessing. It means only that we cannot rely upon, even if we were foolish enough to wish for, a wave of inflation abroad to provide an easy--even if short-lived--market for the increased exports we wish to bring about. The best we can probably hope for is a strong, but not inflation-dominated, demand situation abroad which, if combined with a continuation of the recent tendencies to moderation in our own economy, will provide an environment generally favorable to the kind of all-out competitive effort that we are going to have to make if we are to balance our international accounts.

It is, indeed, against this kind of reasonably hopeful background that one has to judge the figures that we now have for the breakdown of the otherwise encouraging total figure for our exports in January that I reported last time: exports at an annual rate of some \$18- $\frac{1}{2}$ billion, as against a realized level of exports for the years 1958 and 1959 of around \$16 billion. Some of the declines that continued to be registered within the total increase in exports were certainly not evidence of our declining competitiveness. This is true, for example, in the case of coal, in which we are certainly competitive, and which is being kept out of important foreign markets only by a combination of discriminating import restrictions and governmental purchasing arrangements. And it was good to notice a marked pick-up, from the depressed levels of November and December, in a field in which our competitiveness has been called into question; namely, exports of autos, trucks, and parts.

On the other hand, the dominating element in the total increase was the very much heavier shipments of raw cotton, which totalled over one million bales for the month. When

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this figure is related to a figure of expected exports of cotton, during the current season, of about 6-1/2 million bales, and when seasonal factors are taken into account, it is fairly clear that the January rate of cotton exports is unlikely to be sustained in coming months. It is considerations of this kind, in combination with the anything but spectacularly favorable movements of gold and dollars for February and the first half of March, that ought to continue to warn us against cheering too loudly too soon. We seem to be on the road of adjustment in our balance of payments, but it still looks like a pretty long, hard road ahead of us.

Mr. Hayes presented the following statement of his views on the business outlook and credit policy:

Although some of the new business data becoming available since the last meeting point in divergent directions, for the most part they seem to support a reasonably optimistic view of 1960.

Among the more encouraging new statistics are those on plant and equipment expenditures and employment, whereas production and sales data have been somewhat disappointing, and statistics on orders and inventories could be interpreted as signalling trouble ahead. Perhaps the lag in sales may be attributed in large measure to such factors as the weather and the aftereffects of the steel strike; and special factors may also be adduced to account for the drop in orders. With the decline in stock prices and in inflationary expectations, there has been some change of pace in business and consumer spending plans. On the other hand, greater availability of long-term investment funds may prove to be a stimulant to activity in construction and other sectors, and the general stability of prices should be a sustaining factor in the long run. On balance, the current business lull appears likely to represent a period of hesitation in a strong or expanding economy, rather than the beginning of a cumulative downward movement.

There are enough elements of uncertainty, however, so that we must keep in mind two other possibilities besides that which I have suggested as likely. First, the economy may be stronger than it appears from current statistics, and in retrospect the current lull may appear altogether trivial, as was true in the case of several periods of hesitation in 1956. Secondly, the lull may foreshadow

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persistent "high-level stagnation" or even a real cyclical dip in activity. Fortunately, we need not try to reach any definitive judgment today.

February data for all commercial banks reinforced earlier impressions of unusually strong loan demand in that month, particularly for business loans. However, an unusually sharp shrinkage in the banks' holdings of investments brought a decline in total bank assets roughly comparable with the February drop in other recent years. As for March business borrowing, the inconclusive evidence available so far suggests that it also was about in line with the usual seasonal pattern. Strong corporate cash positions, from which taxes could be paid without significant strain on either the securities market or the banks, doubtless found reflection in the general tone of the Treasury bill market in the past week or two.

I can see no reason for a basic change in the policy adopted at our last meeting. In the present period of cautious business and price expectations, we can probably give some encouragement to a more plentiful money supply without any serious risk of feeding an inflationary credit expansion. I might add that the New York banks are rather concerned over their ability to meet seasonal loan demands later in the year in the light of their present peak loan-deposit ratios and dearth of liquid assets. On the other hand, the recent rise in money substitutes and in velocity, coupled with the easier tone of the credit markets, indicates that to date ample credit has been available, from one source or another. Thus, while we should certainly seek a larger money supply over a period of months, the need may not be an immediate one.

In seeking a statistical target for the next three weeks, I would think the range of \$250 to \$300 million mentioned by the Chairman at the last meeting is still suitable; but rather wide fluctuations on either side should be permitted if appropriate in the light of market developments. Thus, I should think we would be reluctant to encourage any further plunge in interest rates, the decline in which has probably already outrun the realities of underlying conditions. Incidentally, any action by the Treasury at this time to push its borrowings toward the long end should have advantages in the way of a steadying influence on the long-term rate structure which would outweigh the drawback of any added impetus it might give to the current downward sweep of short-term rates.

The Board of Governors has at hand another weapon which we do not usually think of as an instrument of general credit

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control but which may possess some of the attributes of such an instrument under present conditions. I refer to the possibility of an increase in the ceiling on deposit interest rates under Regulation Q. Some of us have long felt and still feel that an increase is warranted on a variety of grounds. But in addition such a move now might have a salutary effect in checking exaggerated market expectations of a trend toward ever lower interest rates; for it might suggest to the public that the System does not expect rates to reach a range where present ceilings under Regulation Q would no longer present any problem.

In view of the business uncertainties and the undesirability of a further decline in market rates of interest in the near future, I believe we should particularly avoid any dramatic or overt move at present, such as a cut in discount rates, even though "even keel" considerations may make it hard to act during the interval from next week until completion of the May refunding. A discount rate reduction might be interpreted by the public to reflect a gloomy appraisal of the outlook, with adverse effects on business sentiment. Also, it could easily generate a sharp shift in market expectations that would lead to a downward race between market rates and discount rates. The view that discount rates should be kept in line with market rates loses much of its force when a "penalty rate" situation exists.

It seems to me that the directive as formulated at the last meeting is still appropriate.

Mr. Johns recalled that at recent Committee meetings he had identified himself with the view that a continuance of monetary restraint was in order. He had persisted in that view at the March 1 meeting, when he was one of a relatively small minority. It was not his purpose at this time to attempt to justify his position; suffice it to say that he did not intend at any time during the recent period to argue for an intensification of restraint. It had been his feeling, however, that until some clearer indication of the future course of the economy was available, it would be in order to continue a policy

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which at the February 9 meeting was characterized by a number of members as "watchful waiting." Obviously, the fact that he was one of a small minority three weeks ago required a reappraisal of his thinking in the light of such changes, facts, and circumstances as might be observed. While the changes had not been dramatic, except for interest rate developments, he was not so much inclined as he had been earlier to expect that the country would emerge from the current period of low visibility into a resumption of strong expansionary forces. This led him to a consideration of the implementation of the policy expressed quite clearly by the majority at the March 1 meeting. The views he would state were not as firm and doctrinaire as might appear, and his comments should not be understood as criticism of the Account Management. Instead, they reflected consideration of the Committee's own practices with respect to the expression of its policy mandate and its instructions to the Desk.

At the March 1 meeting, Mr. Johns brought out, there were expressions of concern about the continued decline in the money supply. Some had expressed similar concern on February 9, and at least one member of the Committee, Mr. Mills, had expressed concern over a longer period of time. On March 1, the Manager of the Account was directed, as Mr. Johns understood it, to ease the degree of monetary restraint. The instruction was not specific as to what was to be eased and by how much, but there seemed little doubt that the majority wanted some relaxation of pressure in the money market.

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Furthermore, it was evident that the majority wanted no further decline in the money supply. In fact, there seemed to be considerable support for a modest increase in bank reserves and the money supply. In certain respects, some appearance of the objective of relaxation may seem to have been attained. Member bank borrowings declined, net borrowed reserves declined from over \$400 million to a level around \$250 million, and interest rates dropped.

Nevertheless, if it was the basic desire of the Committee to achieve an increase in the money supply, the result of open market operations since May 1 may not have been altogether satisfactory. Despite large net purchases of Government securities, total central bank credit, seasonally adjusted, and bank reserves, seasonally adjusted, were no larger in early March than in February, and commercial banks probably did not increase deposits or money. Member banks apparently attempted to reduce their indebtedness to a greater extent than the revised target of net borrowed reserves used by the Committee. Some may have become more cautious, and some may have found it more expedient at current market prices to sell Government securities, but in any case the average level of borrowings from the Reserve Banks fell markedly. It might be that one could not expect the Desk to accomplish any given change in bank reserves or the quantity of money in such a short period as three to four weeks. However, since total reserves and the money supply had been declining for some months, during which the Committee was calling for maintenance of

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the same degree of restraint and, more recently, for an easing of monetary pressure, there seemed to be a need to re-examine the method of instructing the Desk. The time had come, in his opinion, for the Committee to subordinate its consideration of net borrowed reserves and other money market pressures to objectives expressed in terms of total bank reserves or the money supply. He did not mean to say that the Committee thereby would have adopted a system that would assure the avoidance of mistakes, but the use of such a technique would help to avoid doing things to total reserves and money that the Committee did not intend.

As to the immediate future, Mr. Johns said he would suggest instructing the Desk to buy over the next few weeks whatever was necessary to keep total reserves, seasonally adjusted, from declining, and indeed to show a 1 or 2 per cent annual rate of increase, with a view to reversing the decline in the money supply. It might be objected that there was no certain seasonal adjustment of the money supply or the quantity of reserves that could be used, but he felt sure that the judgment of the Desk would be good enough to keep going in the direction the Committee desired.

Mr. Johns agreed with the view that no change in the discount rate was indicated at this time.

Mr. Bryan's comments were substantially as follows:

The most astonishing thing that has happened in the Sixth District has been the weather. It has disrupted

farming operations with freezes, ice, and heavy snow in areas entirely unaccustomed to such phenomena. The greatest immediate damage has apparently been in the broiler industry, which is the more serious because the industry was already in most areas of the District suffering from acute economic illness. Some people are guessing that the greatest long-run damage has been to the timber crop in the areas affected.

Total nonfarm employment has set a new record in the District. Both manufacturing and nonmanufacturing employment have apparently risen somewhat more in the District as a whole than in the United States, which we note because it reverses a relationship of about a year's duration.

Construction contract awards show little change after earlier months of sharp decline.

Seasonally adjusted department store sales have declined in February, which may be a result of weather. But broader measures of retail trade in the last three months have been below the high volume of last summer and fall, somewhat more so in the District than in the nation.

During the three weeks ended March 9, loans at weekly District reporting member banks have remained almost unchanged. Liquidation of bank investments has continued. The loan to deposit ratio of our banks has edged up again after some months of stability. Our impression of the banking situation in the District is that it is highly illiquid and that the banks are under continuing and considerable pressure.

Borrowing from the Federal Reserve Bank has declined somewhat, apparently as a result of liquidation of investments and increasing use of the Federal funds market. But borrowing from the Federal remains high in relationship to national totals.

As we see the picture nationally the country is operating at a high level with increasing evidence that the recovery is losing momentum, that some massive readjustments are taking place, and that others are in prospect. Among readjustments, two seem especially worth noting: the increasingly competitive nature of the economy, both in its domestic and foreign aspects; and the adjustment of the American public from an inflationary to a noninflationary psychology, which is an excellent development for the long pull, but could be, for some months if not for a year or two, gravely troublesome in its economic implications.

We confront this situation with an equity capital market still seriously inflated by the standard of past norms. We confront the economic situation, moreover, with a highly illiquid banking system. Indeed, the liquidity measures of the banking system closely approximate those of the late twenties.

Although it seems too early, in the light of some elements of economic strength in the current situation, to take dramatic monetary steps, still, it seems to me that we must have a re-appraisal of our policy as it has been evolving over the past few months. In saying this, I am also saying that in my judgment the evolution of our policy in the recent past has been alarming and is likely to confront us with problems from which we can extricate ourselves only with the greatest difficulty. I am also saying that the evolution of our policy does not seem to me appropriate in view of the illiquid position of the banking system and the economic situation as it has developed in the first quarter of 1960.

Let me comment in support of this view:

1. By the year-end we had gone through a long period in which, broadly speaking, there had been no growth of bank reserves. The recovery movement had pressed, properly I think, against an essentially stable supply of reserves. Much the same thing could be said about funds in the hands of the public, namely, the money supply.

2. In the period since the year-end we have permitted no growth in reserves. Indeed, the result of our actions, which is de facto our policy, has not been to effect a growth in reserves, however modest; not to hold reserves stable; but to diminish them. Thus we stand, as of this meeting, with the total reserves of the banking system about 2 per cent less than they were a year ago at this time and less than they were at the year-end even on a seasonally adjusted basis. We find that the money supply gives us much the same story.

3. It does not seem to me that this de facto policy has been at all appropriate. It seemed to me at the year-end, and it seems to me now, that our policy should appropriately have been one of affecting a small growth rate in the reserve supplies of the American banking system--seasonally adjusted.

a) Although it is possible to debate endlessly the appropriate rate of growth in the reserves of the banking system in any given banking and economic situation, there is an ample and highly competent body of monetary theory to supply a view that some rate of growth is necessary to an expanding economy and, if not permitted, will sooner or later have a deflationary effect both on prices and the tempo of economic activity.

b) However, it is hardly necessary to appeal to monetary theory. The same point is involved in a long historical experience, which we can ignore only at our peril.

h. Now, I am alarmed by the evolution of our policy in the last two and one-half months because it puts us in an

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extremely difficult posture with regard to the rationalization of our policy and because, as indicated above, I think it will, if it is permitted to continue, produce an economic result that we do not intend and cannot defend.

As for the rationale of our policy--in short periods we do not control the expansion of the money supply. Monetary policy at least in short periods is permissive, not determinative of the money supply. We can make a defense on that point. What we cannot defend ourselves against is the charge that by constricting the reserves of the banking system we have not in fact permitted an increase in the money supply. It is precisely therein that in my judgment we are subject to deadly attack.

As for the eventual economic result, I myself think that our policy, unless greatly ameliorated, will in a matter of time, whether weeks or months, produce effects that we do not at all want. I think here we should remind ourselves of what we have learned many times: monetary policy produces lagged effects. If the effects of an overdone restriction begin sooner or later to be overtly evident, and are unfortunate, as I think they will be, we shall not be able to plead ignorance. Note, I believe that a policy of reducing the reserves of the banking system when (a) the banking system is illiquid and is struggling to produce its own liquidity; (b) the economic system, though operating at a high level, has unutilized and increasing resources of manpower and materials available for utilization, I think, without inflation; and (c) is going through and must go through quite massive readjustment--such a policy of reducing bank reserves is in fact, in my opinion, severely restrictive regardless of what we may say about it.

Let me also suggest, as a sort of aside, that the period we are in is one that illustrates the grave dangers of the free-reserve, net-borrowed reserve concept as a guide to policy. The circularity of reasoning involved in that concept tends to betray us, I am sure, into an inadequate policy in a period in which required reserves fall rapidly.

5. Be all the arguments as they may--many more could be advanced--I do now strongly urge that we promptly proceed to ameliorate our policy by effecting an increase in the reserve supplies of the commercial banking system--whether using as a guide the free-reserve concept or any other rational approach. As the matter stands today, we have, from December, a total reserve deficit of approximately \$450 million in daily average reserves on a seasonally adjusted basis. That's at the previously suggested growth rate of 2 per cent per annum in total reserves. But the 2 per cent growth rate, alone, if we cannot agree on that, has accounted in the months since it

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was suggested for less than \$90 million of reserves. We have a deficit since December, seasonally adjusted, of approximately \$350 million even if we had decided, as a matter of policy, to permit no growth of reserves at all. I do not believe that we can logically support this circumstance in the light of current economic and financial events.

I likewise think that by inadvertence we have not done what we intended. It does not seem to me in the slightest accurate to say that a single one of us, in the last two and a half months, has wanted to enforce an actual diminution of the money supply or to effect an actual diminution of the seasonally adjusted reserves of the banking system.

Now, we find ourselves confronted with a very difficult problem of maneuver. There is a large deficiency of reserves, but, to make up the deficiency all at once, or even in a brief interval, would produce gyrations in the money market; and, at the same time, we are confronted shortly with a Treasury offering and the presumed necessity of an even keel. Nonetheless, it is my judgment that we must resolutely begin an amelioration of our policy and begin an amelioration by increasing the reserves of the commercial banking system.

I would make no change in the discount rate at this time.

Mr. Bopp said that in the Third District, as in the nation as a whole, business developments had been mixed in recent weeks. The upward trend of activity seemed definitely to have slowed somewhat, but there were no signs of serious weakness. The reserve positions of the large Philadelphia banks had been under increasing pressure. The daily average basic reserve deficiency in the past three weeks was \$90 million, compared with \$74 million during the previous period. To meet this drain on reserves, banks purchased Federal funds and also borrowed more from the Federal Reserve Bank.

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Mr. Bopp expressed the view that no change was called for in the policy directive, in the tone of the money market, which was easier than it had been, or in the discount rate.

Mr. Fulton reported that most of the industrial measurements in the Fourth District showed some softening and that some moderate decline had taken place. In a number of cases, however, this seemed to reflect the impact of severe weather and other temporary factors. While department store sales were down, for the year to date they were 2 per cent above last year. Likewise, although automobile sales had softened recently, for the year to date they were 11 or 12 per cent above last year. The steel industry was still operating at a very active rate, with operations in the district at 93 per cent of capacity against a national average of 91 per cent. In Cleveland, operations in the past week were at 102 per cent of capacity. The mills supplying the automotive industry seemed to have cut back more than those supplying other users of steel. Projections of two of the mills indicated that they would continue to operate at a high rate in the first half of the year--around 90 per cent of capacity--and that production would fall substantially in the third quarter and then rise again in the fourth quarter when the new-model cars would be in substantial production. While customers seemed to feel that there would be no precipitate decline in their takings, they were not inventorying steel for they were able to get most types without delay. Building activity had

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declined somewhat, but a survey of builders' plans in northeastern Ohio indicated a 6 per cent increase over last year in dwelling units constructed, with 62 per cent of the houses priced to sell over \$20,000.

Mr. Fulton said that several manufacturers had told him of the large amounts of Treasury bills and other Government securities their companies were holding. Instead of having the money in the bank, they had it in the form of income-producing cash. A recent survey of capital expenditures revealed that manufacturers still planned to spend substantial sums, with the financing to be largely from internal sources rather than recourse to the markets. District member banks had been borrowing at a rate averaging from 4 to 6 per cent of the System total. There seemed to be no real distress among the banks, and funds were available to meet their requirements. Bank debits were running 10 per cent above last year, indicating a full use of money.

Mr. Fulton said he was impressed by the comments at this meeting on the money supply. However, he felt that the large amount of liquid holdings by corporations could not be ignored. The operations of the Desk and the results achieved by Committee policy in recent weeks seemed to him appropriate, and he would make no change in policy. Neither would he favor a change in the discount rate or the policy directive.

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Mr. Shepardson said it seemed to him, from the views and information at hand, that the country was still in a period of low visibility. Nevertheless, while it was not entirely clear what the trend might be as the spring season opened, it appeared that there were still strong underlying forces and that one might reasonably expect an upsurge of spring activity. On the matter of the money supply, he found himself puzzled. He thought it was proper that the Committee wanted to see some reasonable growth in the money supply, and with that in mind he went along with the consensus at the March 1 meeting. It seemed to be a time when the System might ease a little and permit some increase in the money supply. However, developments of the past three weeks brought to attention again the question of what comprises the money supply, in view of the amount of "near money" and the effect it might have. He was not sure that the money supply was as inadequate as figures based on the conventional definition would indicate, and for this reason he felt the Committee should be cautious about further activity in the direction of easing. He would prefer to try to hold about the situation that had existed in the past three weeks. This would contemplate taking care of such seasonal needs as might develop, but not going further. He would not suggest a change in the directive or the discount rate at this time.

Mr. Robertson said that in his view this was a very uncertain period. As a result, overt actions by the Open Market

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Committees were likely to be given an exaggerated meaning or importance by the public, with unfortunate results. He thought it would be a mistake to over-emphasize the money supply figure and to launch on a program of trying to push up the basis on which the money supply could be increased. He could agree almost word for word with the analysis of the staff and of Mr. Hayes, with the exclusion of the latter's comments concerning use of the maximum permissible rate of interest on time and savings deposits as an instrument of credit control. He would not like to see intentional easing, because what the System did was likely to be interpreted as an indication of something more in the picture than actually existed. Accordingly, as to net borrowed reserves, he would favor a target between \$250 and \$300 million. While he would not be upset if net borrowed reserves went a bit on either side of that range, he hoped they would not go below it to a point where the public would think this was a continuing trend of policy on the part of the Federal Reserve, indicative of a definite change of its views on the economy of the country. In his own view, the country was in the midst of a lull before an outbreak of expansionary forces in the near future. He fully expected to see the strong factors in the economy emerge within the next two months, with the result that System policy would be moving back toward restraint.

Mr. Mills expressed the view that the decisions reached at today's meeting should hinge on the extent to which reserves should be injected into the commercial banking system so as to arrest the

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shrinkage of the money supply. In his judgment, the injection of reserves should not be on a basis that would give further impetus to the strong upward movement in Government securities prices or to the speculative climate that is attached to such a movement in its present stages. In line with that sort of an objective, he felt that negative free reserves should be maintained at approximately the \$300 million level, minus or plus. In this way the Committee could experiment with a testing period that would reveal the true amount of ease that had been permitted in bank reserve positions by the System's actions thus far. Although this could be wishful thinking, the experiment might show that inasmuch as open market operations over the past several weeks had permitted a reduction in the volume of discounts at the Federal Reserve Banks, a static position would be reached in the volume of discounting that would permit certain banks, or groups of banks, latitude to expand their holdings of bills and in that way foster some increase in the money supply. He felt also that if a relatively static position in the volume of discounts were reached, the commercial banking system would be more free to meet the credit demands with which it was confronted at the present time, and which might require accommodation to carry the economy through the period of uncertainty that had been dwelt on extensively in the discussion around the table to this point.

Another factor that Mr. Mills felt should be explored closely related to the holdings of Government securities and related near-money

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substitutes in the hands of corporations and others, and to the concern expressed that they were of a volatile nature. They could readily be turned into cash, it was argued, and their liquidation might produce results that would be economically undesirable.

However, it seemed to have been overlooked that the holdings of those near-money substitutes were largely in the hands of nonfinancial institutions, mainly corporations. In his opinion, it was unlikely that those holdings would be converted and activated to any substantial extent if at the same time the money supply was shrinking, because a shrinkage of the money supply implies that the commercial banking system is without the means of expanding its deposit totals or otherwise increasing the availability of credit. If there was a lack of availability of credit generally throughout the economy, particularly to consumers and smaller economic units, there would be no means of giving acceleration to their activities, and consequently no incentive to the corporations to divest their holdings of near-money substitutes and put them to work. He felt quite strongly that the mere fact that corporations were heavy investors in Government securities and other near-money substitutes was by no means an indication that they would convert their holdings and put the proceeds into the money stream. In the same way, he had reservations about some of the comments that had been made from time to time regarding an increase in the velocity of the turnover of money under conditions such as those now being experienced. It seemed likely that increasing velocity at the time

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of a falling money supply did not reflect an upward active thrust in economic activity, but in reality a strained condition on the part of holders of cash balances. In conclusion, Mr. Mills said he would not favor changing the discount rate at this time.

Mr. Leach reported that the Fifth District business situation was characterized by a high level of activity supported by large backlogs and a substantial volume of current orders, but that activity had been held back in each of the past three weeks by heavy snow and ice. The textile, furniture, and construction industries still had the benefit of large backlogs, although unfilled orders in textiles were being worked down. Bituminous coal production was below the expectations of the early part of the year. Hardest hit by the weather had been lumber operations, construction, and outdoor activities, along with retail trade. Sales in some areas were also being adversely influenced by demonstrations against lunch-counter segregation in stores.

Mr. Leach said there had been signs in the past three weeks that pressures were lessening somewhat at Fifth District banks. Loan demand had slackened slightly, the rate of liquidation of investments had slowed down, and borrowing at the discount window was a little less heavy than a year ago. The mortgage situation continued tight in most areas, and it was said that the flow of mortgage money into West Virginia, North Carolina, and Virginia had been curtailed because of the 6 per cent usury laws in those States.

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Turning to the policy area, Mr. Leach said he had been pleased with developments. He thought the restrictive policy followed by the Committee up to the last meeting was right, but he believed the Committee should now be careful to recognize the changed outlook. In his judgment, the current situation called for perceptibly less restraint than three weeks ago, and he believed that the Committee had achieved it. To him, the crucial question was whether the System could moderate restraint a little more without encouraging excessive credit expansion. He believed it could, if the change was small, but he was willing to defer further relaxation and go along with those who advocated maintenance of approximately the same degree of restraint that had been achieved in the past two weeks. Speaking of net borrowed reserves merely as a benchmark, he would be pleased if they should average less than \$250 million in the period immediately ahead. He thought it would be a mistake to moderate restraint at this time to the point where there would be a further reduction in interest rates that might prove to be temporary. The economic situation had not changed to the extent that a decrease in the discount rate was warranted, and he would not worry at this time about rate alignment.

Mr. Leach expressed the view that the general policy of the Committee, as expressed in clause (b) of the directive to the New York Reserve Bank, should be continued. His interpretation of the second part of clause (b)--"while guarding against excessive

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credit expansion"-- was that the Committee felt that in the next several months there was a reasonable or above-normal chance that undue expansionary pressures on the economy might arise. Although he was willing to go along, his conviction in that regard was not as strong as it had been three weeks ago.

Mr. Leedy commented that Tenth District statistics had been distorted due to weather conditions. One favorable result of the bad weather was that the district now had ample spring moisture. The banking picture was about the same as reported nationally. Business loans continued strong, there had been a seasonal reduction in demand deposits, and there had been some liquidation of Government securities.

As to policy, Mr. Leedy said that to him the idea of adding to the money supply on any formula basis, regardless of the period through which the economy was passing, had little appeal. Although he subscribed to the view that the System should make additions to the money supply, he did not feel that the matter could be put on a short-term basis. In a period when interest rates were declining, particularly in such dramatic fashion as in recent weeks, the argument for current additions to the money supply did not seem to him to have a valid basis.

Mr. Leedy said he had wondered whether the use of a net borrowed reserve target might be producing a result not entirely in accord with the Committee's desires. During the recent period,

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when there was only a small reduction in net borrowed reserves, there were times when the Federal funds rate was considerably below the discount rate and short-term rates generally were dramatically below the discount rate. The use of the net borrowed reserve figure had become such that a substantial change in any period might cause some concern and produce a reaction that the Committee did not desire. However, to the extent it could be done, it seemed to him that, in addition to the net borrowed reserve target, the trend of short-term rates and the Federal funds rate might be observed a little more closely in the course of open market operations.

Mr. Leedy said he did not feel that this was a time for any further tightening or a time when the System should consciously relax further the degree of pressure that it had been attempting to place on reserves. Instead, for the period ahead, he would prefer to maintain substantially the same degree of restraint that had prevailed recently.

With respect to the maximum permissible interest rate on time and savings deposits, Mr. Leedy said that, like Mr. Hayes, he had felt that something should be done in this area. However, in the light of recent interest rate developments, it did not seem to him that this would be an appropriate time to increase the maximum permissible rate.

Mr. Allen commented that on the basis of available figures, conditions in the Seventh District appeared to be a little stronger

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than those in the nation as a whole. In January, manufacturing employment was up 5.3 per cent, compared with an increase of 4.8 per cent nationally. In January and February, new claims for unemployment were 16 per cent below the low levels of a year ago, compared with a 4 per cent decline for the nation as a whole. For the nation, retail sales in January and February were 3 per cent over last year's record level, and in view of the pessimism concerning automobile sales it was interesting to note that dollar sales of automotive dealers for this year were 4 per cent above last year and practically equal to the record dollar level of 1957. Even during the first ten days of March, when severe weather over wide areas of the country was an adverse factor, the average daily selling rate was 4 per cent over last year.

Continuing, Mr. Allen noted that increases in loans to business, including finance companies, by reporting banks in New York and Chicago in the week ended March 16 amounted to \$533 million and \$95 million, respectively, the largest single-week increases on record, even for a tax period. Although dollar increases in business loans at those banks were greater in the same periods of March 1956 and March 1957, it must be remembered that the amounts of taxes due in those years were considerably higher as a result of the Mills Plan schedule. New York and Chicago banks had generally accounted for from one-half to two-thirds of business loan expansion to all weekly reporting banks in previous tax periods. If that relationship

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prevailed this year, the total business loan increase for all reporting banks in the country would be between \$900 million and \$1 billion.

Mr. Allen pointed out that the tax week loan upsurge followed an unusually large expansion in February. From the first of the year through March 9, total loans of all Seventh District weekly reporting banks were off only \$25 million, in contrast to a decline of \$225 million in the same period of 1959, with all loan categories stronger this year. For the country as a whole, however, the net decline in total loans at reporting banks was considerably greater than in 1959, as a smaller contraction in commercial and industrial borrowing was more than offset by larger declines in other types of loans, especially those on securities. Total bank credit and deposits continued to fall through February as banks sold large amounts of Government securities, and this was reflected in a continued shrinkage in the money supply.

Mr. Allen said he was not as concerned about the money supply as many of those at this meeting appeared to be or, rather, that he did not share their views. It seemed to him that too small a portion of increased production had been financed out of savings, and that too large a portion had been an unnatural and forced increase, financed by credit. The System had provided the reserves that made the abnormal increase possible, with higher price levels as a result. He thought this was an appropriate time to consider carefully whether or not the System should continue to feed such abnormality at a time when business activity was at a high and satisfactory level. His thinking was

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influenced in part by a recent review of the loan portfolios of several banks, some of them sizable. He was surprised at what he saw, particularly the terms of the credits, and he did believe he was looking at isolated cases. He agreed with Mr. Bryan's statement that the banks were illiquid, but, based on his own observations, he questioned whether it could be said that they were striving to become more liquid. His observations had made him more sure than he was before that an adjustment was coming, a painful adjustment which was the result of financing growth by means of credit rather than through savings. He was equally sure that to put in more reserves at this time, when business was showing a tendency to level off at a very high level, would only make the adjustment more painful.

Accordingly, Mr. Allen said, he would prefer to do nothing further for the present in the way of easing credit restraint, and instead to await the results of the Easter season. Given the high rate of personal income and the evident disposition of people to spend and to borrow, the very satisfactory level of activity might continue. Whether it did or not, he saw no reason yet to anticipate a "recessionary spiral," as Mr. Noyes had phrased it, that would deserve System action. He would try to keep net borrowed reserves in the range of \$250 to \$300 million, and he would not favor changing the discount rate or the directive at this time.

Mr. Deming reported that Ninth District business sentiment seemed to be a little more optimistic than a month ago. Actually,

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however, the available statistics showed only modest improvement. Continuing the trend in evidence for the past several months, February data on personal income in Minnesota indicated a 2.7 per cent gain from a year earlier and a .7 per cent gain from January. Wage and salary income was up 6 per cent in the year and .5 per cent in the month, while farm proprietors' income was off 20 per cent from last February. District nonagricultural employment in February was at a new high, seasonally adjusted, bank debits were 14 per cent above a year ago, and department store sales had been relatively good.

The iron ore situation nationally was about as good as at this time in 1959, with stocks only one million tons smaller. However, the impact of the steel strike on Lake Superior ore could be seen by the fact that stockpiles from that source were 12 million tons smaller than in early 1959. Most of the difference represented foreign imports. It was too early to tell when Lake shipments from the Superior ports would begin this year, but it was expected that some ore would go down the lakes from Escanaba (on Lake Michigan) about the first of April.

Mr. Deming reported that Ninth District banking figures continued to show what might be called "accented seasonal trends". Deposits were off more than usual, and loans were up more strongly. The net result was a continued pinch on bank reserve positions and a continued rise in loan-deposit ratios.

Mr. Deming said he had some question about the point made by Mr. Thomas that the decline in Government securities held by the

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banking system reflected mainly a demand by nonbank investors for such securities. It seemed to him that the banks continued under some pressure and were liquidating Governments more because they had to than because others wanted to buy the securities. In other words, he continued to be concerned about the general level of bank liquidity. While he would not go as far as Messrs. Johns and Bryan in moving strongly to bring up the total reserve base, he thought it would be well to attempt to move toward the objective of increasing that base. Therefore, he would look with favor on additional probing toward moderately easier conditions despite the current level of interest rates. This probing action, he believed, should be cautious and gradual, and not forceful. The phrase used at the March 1 meeting--"conscious but moderate easing"--with a tone of continuing movement about expressed his feeling as to open market policy. He saw no need to change the discount rate or the policy directive.

Mr. Mangels said there was little new to report from the Twelfth District, with no changes in employment, department store sales, retail trade, or automobile sales that seemed worthy of comment. A couple of steel mills reportedly had cut back production of a few types of items because of foreign competition. Also, it had been learned that the Defense Department budget for fiscal 1961 included \$1.5 billion for Boeing contracts, which would be helpful not only because of the contracts themselves but also because of results that would filter through the district.

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Mr. Mangels said that district bank loans increased in the past three-week period, but at only about one-third the rate of increase for the similar period last year. Demand deposits also increased, but again at a rate considerably less than last year. Banks continued to lose time and savings deposits, at a rate more moderate than earlier in the year, but in general district banks appeared to be in a somewhat easier position. In the past week, reporting banks were net sellers of Federal funds to the extent of \$500 million, and this week it was estimated that they would be net sellers to the extent of about \$1 billion. Borrowings from the Reserve Bank had fallen to modest proportions.

Mr. Mangels said the business situation in general seemed to him to continue to show a somewhat mixed trend. Business had been affected by bad weather throughout most of the nation, but there was not much to indicate that even with better weather there would be a quick upward movement. In view of the prevailing uncertainties, he would be inclined to stay somewhat on the easy side, perhaps a little easier than in the past three weeks. He would aim for net borrowed reserves in the area of \$200-\$300 million, with leeway given to the Account Management. The policy directive seemed satisfactory. While he would not favor changing the discount rate at this time, he would not be too surprised if at some time in the relatively near future the System might not want to give some consideration to a downward adjustment unless conditions changed.

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Mr. Irons said there had been a slight lessening of activity in the Eleventh District, which perhaps could be attributed to weather conditions. Construction and department store sales had not been showing as much strength as earlier, the latter being 2 per cent under a year ago for the year to date. Another factor that might be having some influence was the further decline in petroleum production. Allowables had dropped to nine days, and there was no immediate prospect for improvement. This situation was reflected in drilling operations and the psychology of people closely associated with the oil industry. In general, however, district conditions were about the same as three weeks ago. They reflected many of the uncertainties seen in the national picture.

Turning to policy, Mr. Irons said that for the period ahead he wished to identify himself with the views Mr. Hayes had expressed. He was somewhat disturbed by the price and rate movement in the Government securities market and also about the apparently increasing number of press comments regarding a shift in Federal Reserve policy to ease, for he believed it would be unfortunate if that thought were to become a strong expectation. His preference would be to maintain about the same position as in the past three weeks. He would not try to force funds into the market, and he hoped no further lessening of restraint would become apparent during the next two or three weeks. If the effect of System operations should be to introduce some uncertainty into the thinking of people in the market, he felt that might be

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desirable. He would not favor a change in the discount rate or in the policy directive.

Mr. Erickson reported that conditions in the First District continued to show general strength, with no apparent upward or downward pressures. There was nothing of importance to report with respect to production, construction, or employment. In the February survey of mutual savings banks, the tendencies that he reported at the March 1 meeting continued. Compared with last year, the deposit increase in February was less than in January, and withdrawals were higher. In February, mortgage portfolios increased only 2 per cent, which was the lowest rate of increase in over two years.

For the week ending March 16, district reporting banks showed an increase in business loans of over \$30 million, which was several million dollars higher than during the comparable period last year. During the past three weeks those banks were net purchasers of Federal funds to a greater extent than in the previous six weeks. Average borrowings from the Reserve Bank had gone down. During the past three weeks borrowings averaged about \$20 million, which was only a little more than 2 per cent of the System total.

Mr. Erickson said he would favor continuing the policy of the past three weeks. He considered the directive appropriate and would favor no change in the discount rate. For net borrowed reserves, he would suggest \$250 million, plus or minus, as a target.

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Mr. Szymczak said that for the next three weeks he would favor continuing the policy followed during the past three weeks. This was on the basis that the seasonal trend would be clearer by that time than at present. Also, the Treasury would have to come into the market several times within the near future, and the Easter season was about to begin. As to the money supply, which was a longer-range problem, the question he had in mind was how to accomplish an increase without adding to the inflationary potential. Additions to the money supply are not always feasible because there are factors over which the System does not have direct control, such as debt management and public psychology. The Committee might decide, for example, to add to the money supply through additions to bank reserves at a time when the market was already changing. In this connection, he recalled Chairman Martin's statement at the February 9 meeting to the effect that some persons in the market thought that the System already had changed its policy, when actually it had not. The problem was one of developing techniques that would enable the System to add to the money supply at the right time and in the right amount without disturbing the Government securities market and making the problem of debt management more difficult.

Mr. Balderston said that he would not favor changing the discount rate and that he would continue the existing policy directive. He would favor continuing the policy followed during

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the past three weeks that had produced net borrowed reserves averaging about \$230 million.

Chairman Martin said he thought there was almost a general consensus in the views expressed at this meeting. He had no conviction on the short-term aspects of the money supply, he said, and he was as perplexed as anyone with regard to the interest rate movement. However, it must be remembered that the Treasury would announce its next financing at the end of this month, and the Committee should consider the psychological implications in the money market of moves on the part of the System. He found the situation difficult to analyze and interpret. Some people had overanalyzed the situation and were making various assumptions, including the assumption that the System might change the discount rate. That was a matter of some concern.

Chairman Martin expressed the view that in the present circumstances the Committee should be thinking in terms of an even keel policy, and he thought the consensus was very much along that line. He would not want to complicate the Treasury's problem. The consensus, with which he was in agreement, favored no change in the policy directive and continuing about the same policy that had been followed for the past three weeks.

Chairman Martin went on to say that he thought System policy had been quite good, and that all things considered the System had moved in the right direction. He worried too much, perhaps, about

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overinterpretations and psychological aspects. In this connection, he felt there was a general tendency to exaggerate or overestimate what System policy was going to do to the economy.

Chairman Martin added that the staff, as well as the members of the Committee, should be particularly careful in their comments to outsiders with respect to Federal Reserve policy in a time like this. Care should be taken, particularly, not to show undue concern.

Chairman Martin said that in his view the economy was developing well. Some of the things that the System had been struggling to achieve for a long time were being achieved. It was necessary, however, to be careful about the psychological aspects of the current period.

Chairman Martin then said he understood from the go-around that the Committee would favor continuing the existing policy directive, and that, while there were views plus or minus here and there, it was the general consensus that the Desk should do the best it could to avoid any indication of tightening or of easing.

The Chairman asked whether there were any questions or comments, and none were heard. He then turned to Mr. Larkin, who stated that he had no comment.

Thereupon, upon motion duly made and seconded, the Committee voted unanimously to direct the Federal Reserve Bank of New York until otherwise directed by the Committee:

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(1) To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System Open Market Account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to fostering sustainable growth in economic activity and employment while guarding against excessive credit expansion, and (c) to the practical administration of the Account; provided that the aggregate amount of securities held in the System Account (including commitments for the purchase or sale of securities for the Account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than \$1 billion;

(2) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate \$500 million.

At this point all of the members of the staff except Messrs. Young, Sherman, Thomas, Roosa, and Larkin withdrew from the meeting.

Chairman Martin referred to a memorandum from Messrs. Rouse, Thomas, and Young dated March 18, 1960 regarding ways in which the System Open Market Account might function so as to help minimize refinancing difficulties of the Treasury when such transactions do not interfere with Federal Reserve credit and monetary policy objectives. He stated that he felt the memorandum represented an

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excellent job and should be studied carefully. The Chairman also referred to a letter he had received from a group of members of the United States Senate dated March 12, 1960, copies of which had been released to the press by the Senators concerned, which contained suggestions for change in some of the Federal Reserve operating procedures.

The Chairman then pointed out that action on renewal of three of the Committee's continuing operating policies that customarily are considered at the first meeting in March of each year was held in abeyance at the meeting three weeks ago. The Committee could continue to hold these in abeyance, he said, or it could affirm the operating procedures in the form in which they had been renewed a year ago. He was not suggesting that the Committee should seek unanimity on these statements of operating policy or procedure, and he anticipated that if the three statements were renewed there might be some negative votes. For himself, he had concluded that it would be wiser not to modify the existing operating policy statements to a compromise form that would get unanimity. His proposal was that the Committee discuss today whether it wished to affirm the present statements of operating procedure or whether it preferred to change their wording and their substance. He repeated that he had swung clearly to the position that they should not be changed at this time. It was true that the statements were only words and that the wording could be modified, but there had been

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interpretations of the existing wording over a period of seven years and there had been misinterpretations, some conscious and some unconscious, some of which had tended to set apart the Board of Governors or the Committee and the Federal Reserve Bank of New York on the basis of different interpretations of such words as "solely," "primarily," and so on. In general, he felt certain that the actual operations called for by the Committee had followed procedures that were approved by virtually all members of the Committee, and in his opinion operations generally speaking had moved in the right direction. There was a question, of course, whether the Committee might have made more exceptions to its statements of operating policies than had been the case. On balance, however, he was convinced that there was no necessity for a change in these statements simply because of attacks that were being made on the Federal Reserve's so-called "bills only" or "bills usually" policy. Chairman Martin said that he would like to have Mr. Hayes comment first on the procedure that might be followed. His (Chairman Martin's) proposal would be to take a vote on whether to affirm the present statements of operating policies, making it clear that any person who had reservations regarding their continuation should feel perfectly free to vote against their renewal. After the Committee had reached a decision on this question, his suggestion would be to take up the content of the March 18 memorandum that had been prepared by Messrs. Rouse, Thomas, and Young.

Mr. Hayes said he had understood that Chairman Martin at one stage felt it would be preferable first to discuss problems such as

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those covered in the Rouse-Thomas-Young memorandum and, after reaching some conclusions as to those proposals, to take up the question of the continuing operating statements. He would still have sympathy with that procedure, but he assumed that Chairman Martin now was calling for an expression of views on the three operating statements first.

Chairman Martin indicated that this was correct. His reason for feeling that it was desirable to act on the operating policy statements was partly related to the fact that the open market policy record that would be published early in 1961 would reflect whatever action the Committee decided to take at its March meeting on these statements, which had now been a matter of public record for seven years. He did not think action on reaffirming or changing these statements should be held indefinitely in abeyance because, in view of the history of what the Committee had done, that would be difficult to explain to the public; and he did not think the Committee should act as though it had been influenced by outside criticism of its statements of operating policies when, in fact, it was in substantial agreement as to the actual operating procedures that should be followed. Chairman Martin said that he also would repeat what he had brought to the Committee's attention before, namely, that some members of the United States Senate continued to feel that statements of policy action should be issued more frequently than in the Board's Annual Report once a year, perhaps on a quarterly basis.

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Mr. Hayes said that although he felt a debate on the specific problems covered in the Rouse-Thomas-Young memorandum might clarify the thinking of the group, he did not wish to prolong this discussion of procedure.

Turning to the operating policies, which he had not expected to discuss at this stage of this meeting, he stated that, ever since he became a member of the Committee, he had felt that the differences within the Committee as to what it wished to do were relatively small. He agreed with Chairman Martin that the Committee had been operating most of the time in a way that was satisfactory to all members. He felt, however, that an impression of excessive rigidity on the operating policy statements that had been renewed each year since 1953 had placed the Committee in a disadvantageous spot publicly. This had been demonstrated to some extent in the internal discussions within the Committee. He did not believe the Committee should voluntarily tie its hands with a rigid statement of policy, either for its own sake or from the standpoint of public relations. He had hoped that he could convince the Committee of this view and he had tried to do so over a period of time. He recalled that at the first meeting in March 1958 he had sought a compromise between his views and those of some others by suggesting language for two of these statements that he felt was more satisfactory than that previously used. The Committee had reached a different decision. He felt the Committee's decision at that time was wrong, and he still believed it to have

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been wrong. He reaffirmed this position a year ago.

This year, Mr. Hayes said, he was impressed with the suggestion the Chairman had made several meetings back that a committee try to arrive at a solution of this problem, and the draft of revised statements that had been distributed by the staff committee under date of February 5, 1960, had seemed to him to be a good job. He would have been perfectly willing to adopt the suggestions contained in that draft and would be willing to do so at present. Mr. Hayes said that this was his position at the moment; he will be willing to adopt the February 5 draft but, if this could not be adopted, he would wish to revert to the position he had stated at the March meetings in 1958 and 1959.

Mr. Balderston commented on the procedure that might be followed at this meeting, saying that in view of the attacks being made on the System it seemed to him important that the Committee think in terms of what would be in the 1961 Annual Report covering policy decisions. First, he had come to the conclusion himself that in the face of the attacks being made he would reaffirm the existing statements. Secondly, he liked the wording Mr. Mills had used at an earlier meeting about experimentation. He would experiment during the remainder of this calendar year, following the type of analysis that had been presented by Messrs. Rouse, Thomas, and Young. Third, he believed that better progress would be made by considering specific problems than by arguing over words and their possible

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interpretation or misinterpretation. Whatever the final decision, however, he felt the staff suggestions, as embodied in the March 18 memorandum, represented a worthwhile contribution that should have the Committee's attention.

Mr. Szymczak said that there was the academic position to be considered, which seemed to want the System to go into intermediate and longer-term securities on all occasions to meet monetary needs. Against that, there was the practical side, and on this he found it better for the Committee to continue saying what it had been saying for seven years. This gave a definite position, and that was helpful in relations with the Treasury. After commenting on the paper submitted by Messrs. Rouse, Thomas, and Young, Mr. Szymczak said that at this meeting he would reaffirm the three statements of procedure that the Committee adopted some years ago, and, as practical problems arose before the Committee, make decisions on how to deal with those problems, which might include making exceptions to the general policies stated, as provided for in the statements themselves. Mr. Szymczak said he hoped any such exceptions would not be frequent.

Mr. Bopp said that he had some difficulty in reconciling the statements of policy and the suggestion in the Rouse-Thomas-Young memorandum which seemed to involve rather frequent exceptions to the general statements of policy and which would go beyond the usual intervals between meetings of the Committee.

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Mr. Johns noted that he previously had expressed reluctance about changing the wording of the operating policy statements. In view of the way the Committee was now operating, he would not wish to change them at this time. If, however, at this meeting the Committee should readopt the three statements of policy that were carried over at the meeting three weeks ago, should that action be taken as a complete rejection of any further consideration of the points mentioned in the letter sent to Chairman Martin on March 12 by a group of Senators? If so, he inquired whether this would be prudent.

Chairman Martin said that he had considered this aspect very carefully. If the letter from the group of Senators were to be looked upon as a controlling factor, then the answer to Mr. Johns' question would be in the affirmative. He did not believe, however, that there was any intention to permit that letter to be a controlling factor in the Committee's views or operations. His view was that, if the Committee was unanimous in wishing to change the operating procedure, it should go ahead and make the change regardless of the letter from the group of Senators. As one member of the Committee, however, his judgment was that the Committee had been operating in the right way and that there was no reason for change in the operating policies. The Committee should decide what to do about the operating policy statements on the basis of what it believed to be the right thing to do, not on the basis of some interpretation that might be put on these statements of policy by the Senators or other persons. The

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Committee should continue to study the problem of its operating procedures, but it should not be in the position of having a group of Senators dipping into the policy implications of the System unless there was a change in the provisions of the Federal Reserve Act.

After Mr. Johns remarked that he would wish to be very sure that there was no merit in the suggestions of the group of Senators before they were rejected out of hand, Chairman Martin said that there was no suggestion in his mind of rejecting any proposal for study of Committee operations. He repeated that the Committee should study any suggestions that came to it with a completely open mind. This was a different thing from determining whether to reaffirm the operating statements that the Committee had been using because a letter from a group of Senators placed certain interpretations on the Committee's statements of procedure. The question was not whether to reject the views expressed in the letter to which Mr. Johns had referred but rather to consider the fundamental purpose of the statements of operating policy and whether the procedures that the Committee had been following were the right ones.

Chairman Martin said he was not asking any member of the Committee to vote to continue the operating procedures against his judgment. The statements of procedure were subject to change but he seriously doubted whether the System would have been able to carry on the procedure it had followed in the past several years

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if it had not had some statements of operating policy such as those adopted in 1953. It was easy to forget the difficulties of the transition from a pegged market for Government securities to a relatively free market. These statements had been brought together and put in their present form because of the situation that existed during that transition. There had to be a framework for System operations, and these statements had provided that framework. The suggestion had been made that perhaps the Committee did not need the statements of continuing operating procedures any longer. Perhaps that was true. The Committee could adopt at every meeting a statement as to what its operating techniques should be, as well as its directive on policy. If there was no history back of these three statements, that might be the best solution, but there was a history back of them. He did not think the Committee could disregard this history. If the Committee were to arrive at a decision to do away with the statements of operating policy, it was the Chairman's belief that this would require consideration not only of the views that had been expressed by certain Senators in their recent letter to him but also a complete review of many other aspects of policy, including the Radcliffe Committee report, the problems of guides that Mr. Bryan had brought before the Committee on several occasions, and other matters.

Mr. Robertson said that he believed it desirable to have the statements of continuing operating policies. Further, he believed

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that the Committee should make a decision now as to whether to re-affirm them in their present form rather than to let the questions run on beyond this meeting. Mr. Hayes had suggested that the present statements inhibited members of the Committee from making suggestions for changes in actual operations, and he (Mr. Robertson) believed any basis for this feeling could be removed by (1) deleting from statements (b) and (c) the provisions indicating that these policies are to be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee, and (2) inserting in lieu thereof an additional statement that would apply to all three of the policies indicating that, because of variations in conditions, from time to time exceptions may be made to any of these statements. He would also include a specific requirement that the Manager of the System Open Market Account bring to the attention of the Committee any situation that he believed warranted an exception.

Mr. Szymczak said that he would not object to the proposal of Mr. Robertson, but he believed the points were already covered.

Mr. Fulton said that the inclusion of the word "solely" in statement (c) prohibiting swaps was a red flag to some people. He thought this might be changed or deleted without changing the meaning of the statement so far as actual operations were concerned.

Chairman Martin responded that in his judgment any change in the wording of the operating policies at this time would require

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an explanation as to why the Committee had made a change and what the significance of the change was. That explanation would have to be published in the Board's Annual Report early in 1961. He questioned whether a change in words with an explanation that it did not change the meaning would serve any purpose.

Mr. Robertson commented that in view of the history of these statements, a change of this sort would mean a change in the policy, and Mr. Szymczak said that the saving feature of the whole period since the Treasury-Federal Reserve accord had been the fact that the monetary authority had a statement of its position for use in its relations with the debt management authority.

Chairman Martin said that none of the members of the Committee should lose sight of the fact that, in the record the Committee was building for the period between now and the end of this year, there would be new factors and perhaps new developments to be dealt with, and any actions taken by the Committee or by the System would be subject to different interpretations both within and outside the System.

Mr. Irons said that he thought it would be desirable to retain the present statements with no change. Any change in the wording would call for an explanation as to why the change was made and what its significance was. He recognized that there was an area of semantics in this and that changes could be made in wording without having any substantive meaning. It was for this reason

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that he leaned toward reaffirming the statements in their present form. As an alternative, if it were not for the historical background of the statements, he would not object to dropping them entirely and operating without such statements.

Mr. Hayes stated that he thought changes in the statements could be justified on two grounds. First, it was seven years since the original language had been adopted and the environment and conditions under which the Committee was working had changed in this period, during which we had moved a long way from a pegged market for Government securities. The market had come to understand the basis of System operations in this time, and the need for statements of this sort was much less today than it was seven years ago. The second reason was that he believed the Committee had changed in a small way to indicate a little more willingness to experiment. He did not see why the Committee could not admit such a change if it was true.

Mr. Deming said he came out very close to where Chairman Martin did. Part of the problem was semantics. He commented on points he believed should be kept in mind in considering the problem, including the history and background of the "bills only" policy, the fact that Government securities dealers apparently believe the policy is sound and that its abandonment would make for a less broad market, the discussion of the Reuss amendment in the Congress last year, the fact that many professional economists view the "bills only" policy as unwise and allege that it needlessly ties the hands of the

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central bank, and the fact that some members of the Congress object to the policy. Mr. Deming said that he believed the System could best meet the situation by issuing a formal statement which attempted to answer some of the criticism of professional economists as well as the uninformed criticism of others. Such a statement might clear the air. He would keep the basic framework of the operating policy statements but would modify them gently along the lines suggested by the Rouse-Thomas-Young memorandum. After describing some additional changes that he thought might be made in the statements, Mr. Deming said that if this were done he would make a flat statement that the changes in wording did not change the Committee's operating policy statements as amended by these suggestions in precisely their present position, that is, he would keep them out of the Committee's policy directive.

Mr. Leedy said that regardless of any statement the Committee might make as to its purpose in changing the operating policy statements at this time, such a change would be interpreted as having some significance. If there was no significant change, he could see no reason for changing the wording of the statement of ground rules now. These ground rules had been used and had become understood, and he did not think that any statement the Committee could make would cover all possible exceptions that might be appropriate. He was not aware of any case where a member of the Committee had been inhibited from suggesting exceptions to the operating procedures.

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He concluded that there was no sound basis in the present circumstances for any change in the statements.

Mr. Leach said he rather liked the suggestion Mr. Robertson had made. He did not see how such a change could possibly need any explanation. When these rules were adopted seven years ago, there was considerable discussion as to whether they were to be rigid rules. Over the seven years, they had been interpreted in some quarters to mean that the Committee was rigid. So far as the third statement was concerned, Mr. Leach said he did not know why some swaps of securities within rather short maturities could not be made, but he doubted that an acceptable change of wording could be agreed upon today. Perhaps it would be best to reaffirm the policy statements today, but he would prefer some change in the rule on swaps because he believed the present wording of this statement was too strong.

Chairman Martin said it seemed to him that it was easy to get into specific suggestions for operations and to get away from the general statements of operating policy. He would like to dispose of the question whether the Committee wanted to continue to hold in abeyance a decision on the present operating procedures or whether it wanted to have a vote today on a proposal to continue the operating statements in their present form. He felt that this question should be decided. After it was decided, the Committee could talk about exceptions that it might wish to make under any of the rules. The

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question he was trying to present was whether the existing statements should be reaffirmed.

Mr. Erickson said that in view of developments during the past three weeks he would reaffirm the present policy statements. He would be interested, however, in reviewing the suggestion Mr. Robertson had made.

Chairman Martin stated that while there was merit in this suggestion, he felt it was difficult to discuss this without getting into a redrafting of the statements of operating policy.

Mr. Mills said he agreed completely with the view that had been expressed that the Committee should reaffirm the operating policy statements in full. In his view the Committee should suspend any of these policy statements whenever conditions necessitated deviations or exceptions. He also commented on how he felt the letter from a group of Senators might be answered.

Chairman Martin then asked whether there were further comments on the operating policy statements prior to his calling for a vote on whether they should be reaffirmed.

Mr. Mills said that he would favor the existing policy statements, although he would accept a modification somewhat along the lines suggested by Mr. Robertson.

Mr. Shepardson said that over the seven years there had been changes in the situation from that existing at the time these policies were adopted. There was a potential change in the situation again.

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No one could guess what that might be, but in his view it was desirable to have the statements as something that the Committee could stand on during this period.

Mr. Hayes said that the Committee thought it important to explain to the market seven years ago something of its approach to operations. He did not think the Committee needed these statements any longer. If the System was doing a job as a central bank, it had to stand up to the Treasury under all conditions and it should not have to rely on these statements in order to do so. Many central banks do stand up to their Treasury, he said, and most of them don't have operating statements of this type.

Mr. Balderston inquired whether the proposal that Mr. Robertson had made, adoption of which would show some flexibility, would be preferable to the existing statement, and Mr. Mills responded that he would prefer the original form of the statement although he would not object to the form suggested by Mr. Robertson.

Chairman Martin then said that he would call for a vote as to whether the three statements of operating procedure should be reaffirmed in their present form. In calling for this vote, he emphasized that no one should be inhibited in voting against the statements if that was the view he held.

No objection to this procedure being indicated, Chairman Martin stated that he would vote to reaffirm the three operating statements without change in the following form:

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a. It is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market, and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets).

b. Operations for the System Account in the open market other than repurchase agreements, shall be confined to short-term securities (except in the correction of disorderly markets), and during a period of Treasury financing there shall be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturities to those being offered for exchange; these policies to be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee.

(c) Transactions for the System Account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except in the correction of disorderly markets), and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio; such policy to be followed until such time as it may be superseded or modified by further action of the Federal Open Market Committee.

Messrs. Balderston, Bryan, Fulton, Leedy, Mills, Robertson, Shepardson, and Szymczak stated that they would vote to reaffirm the statements in their present form.

Mr. Hayes stated that with respect to statement "a" he would like to change the word "solely" to "primarily" in view of the fact that he believed that monetary policy included considerations other than supplying reserves. As to statements "b" and "c", he would vote against them, as he had done a year ago, for the same reasons. He would add that he had serious reservations about the "no swapping" rule on any basis.

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Mr. Bopp stated that he was bothered by use of the word "solely" in statements "a" and "c". He felt that, since the full Committee meets every three weeks, it was not necessary to have statements of continuing operating policies. Should they be retained, he felt they should be phrased so as to indicate that exceptions might be made to them as circumstances warranted. Thus, he would vote against reaffirming all three statements in their present form.

Messrs. Allen, Deming, Erickson, Johns, Irons, Leach, and Mangels indicated that if they were members of the Committee they would vote to reaffirm the three statements in their present form.

The meeting then recessed and reconvened at 2:00 p.m. with the same attendance as at the close of the morning session except that Chairman Martin was not present.

Vice Chairman Hayes called upon Mr. Young for comments on the memorandum of March 18, 1960 from Messrs. Rouse, Thomas, and Young dealing with a suggestion that the System Open Market Account might function to help the Treasury minimize its refinancing difficulties when such transactions would not interfere with Federal Reserve credit and monetary policy objectives. The specific suggestion discussed in the memorandum was that the Federal Open Market Committee cooperate in smoothing the refinancings of one-year Treasury bills and November 1961 bonds by acquiring blocks of those issues prior to maturity and then rolling them over at the time of refinancings.

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Mr. Young stated that the suggestion discussed in the staff memorandum had originated with the Treasury, that it would be appropriate for the Federal Open Market Committee to study the suggestion in its own self-interest, and that in his opinion a case could be developed that some participation by the System Account would be desirable from the standpoint of the Committee's objectives and purposes. Mr. Young added that the staff had not felt that it should make such a case to the Committee. Therefore, the memorandum simply attempted to summarize the principal aspects of the proposals and to highlight the main technical and procedural issues involved without presenting any detailed recommendations for System action.

There was a discussion of the procedure that might be followed in considering the staff memorandum, during which the suggestion was made that consideration of the refinancing of the 2-1/2 per cent bonds of November 1961 might be deferred until after a discussion of the proposal for acquiring maturing one-year bills for rollover in the forthcoming April auction. Mr. Young stated that to a degree the problem of the refinancing of the approximately \$2 billion of one-year Treasury bills maturing on April 15, 1960, had been taken care of, although developments in connection with the tax assessment in Cook County, Illinois, as of April 1 might cause a problem to develop again. There was a possibility, he said, that the Committee might wish to give a specific instruction to the System Account to acquire up to \$150 million beyond the amount that

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the Account already holds of the maturing one-year bills, with the thought that, according to circumstances at the time, this additional amount might be permitted to run off or be used to seek an allotment of securities offered in the impending April financing. Mr. Young added that it was an open question whether the Committee would have any need to go further, such as to provide for swaps of bills. Possible additional action might be a problem for further study, once the Committee had set a course with regard to operations in the one-year bills as a continuing procedure.

Vice Chairman Hayes commented that Mr. Young's remarks indicated that there might be a discussion of whether to go into the maturing April bills in a small way, after which the Committee would consider whether it would wish to authorize any swaps. Mr. Hayes said that he had understood the tentative suggestion in the March 18 memorandum was that the Committee might wish to authorize acquisition of up to \$150 million of the maturing April bills, the total to be acquired either through swaps or outright purchases.

Mr. Young stated that this was correct but that there might be no need for going into the question of swaps before the next meeting of the Committee.

At this point Chairman Martin entered the meeting.

There followed a long discussion of the proposal for acquiring 1-year bills with an April maturity, either on an outright basis or through swaps, of the techniques of executing swap transactions, and of whether it might be desirable to experiment

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with swap transactions during the period between this meeting and a meeting on April 12 or whether such experimentation, if authorized, should be subsequent to completion of the forthcoming Treasury financing. There was also a discussion as to whether, apart from acquiring maturing one-year bills through swap transactions, it would be desirable for the System Account to attempt to make outright purchases of these maturities. During this discussion, Chairman Martin pointed out that no special authorization was needed for acquiring bills of different maturities on an outright basis under the Committee's general operating procedures, if such acquisitions were in accordance with the Committee's policy directive, and Mr. Larkin added the comment that System Account holdings now included bills maturing as late as January 1961.

At the conclusion of the discussion, it was the consensus that no authorization for engaging in swap transactions in bills be given at this meeting, it being noted that as a practical matter there appeared to be little or no possibility for using such an authorization even on an experimental basis for the purpose of acquiring 1-year maturing bills prior to the meeting of the Committee on April 12. It was understood, however, that further consideration would be given at the next meeting of the Committee to the proposals included in the staff memorandum of March 18, 1960, including the possibility of authorizing swap transactions in bills as an exception to the Committee's operating policy,

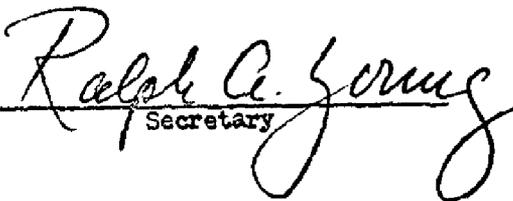
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reaffirmed earlier during this meeting, that precluded offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio.

It was agreed that meetings of the Federal Open Market Committee would be held on Tuesday, April 12, and Wednesday, May 4, 1960.

Thereupon the meeting adjourned.


Secretary