

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, June 14, 1960, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Bopp
Mr. Bryan
Mr. Fulton
Mr. King
Mr. Leedy
Mr. Mills
Mr. Robertson
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. Hackley, General Counsel
Mr. Thomas, Economist
Messrs. Brandt, Eastburn, Hostetler, Marget,
Noyes, and Tow, Associate Economists
Mr. Rouse, Manager, System Open Market Account

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. Mitchell, Jones, and Daane, Vice Presidents
of the Federal Reserve Banks of Chicago, St.
Louis, and Minneapolis, respectively

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Messrs. Einzig and Leisner, Vice Presidents of
the Federal Reserve Bank of San Francisco
Mr. Coldwell, Director of Research, Federal
Reserve Bank of Dallas
Messrs. Gaines and Black, Assistant Vice
Presidents of the Federal Reserve Banks of
New York and Richmond, respectively
Mr. Stone, 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 Com-
mittee held on May 24, 1960, were approved.

Before this meeting there had been distributed to the members of
the Committee (1) a review of open market operations covering the twelve-
week period from March 17, 1960, with a detailed report on operations
from May 24 through June 8, 1960, and (2) a supplementary report covering
the period June 9 through June 13, 1960. Copies of both reports have been
placed in the files of the Committee.

With further reference to developments since the Committee meeting
on May 24, 1960, Mr. Rouse made the following comments:

As indicated in the written reports to the Committee, open
market operations since the last meeting supplied \$445 million
reserves net, mostly during the few days preceding the Memorial
Day holiday. Since the beginning of June, operations have been
more moderate in scale, and include not only purchases but some
sales that were made yesterday and the scheduled runoff of
about \$98 million of Treasury bills next Thursday.

The money market was moderately easy during the period,
reflecting in part the easier position of the New York banks,
which were net sellers of large amounts of Federal funds on
nearly every day of the period. On the other hand, the reserve
figures and Federal funds demands suggest persisting shortages
of reserves in some other parts of the country.

There has been no evidence as yet of any of the customary
strains that develop around quarterly tax and dividend dates.
There has been some selling of very short-term bills, but this

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selling seems to have been readily absorbed and the market has not so far evidenced any concern over its ability to absorb the selling that may yet appear or its ability to refinance securities held under repurchase agreements that terminate tomorrow. This fragmentary evidence would suggest that corporate liquidity positions are more than adequate.

The Government securities market showed considerable strength after the first of the discount rate reductions was announced on June 2, and again after the announcement last Thursday of a reduction in the rate of eight other Reserve Banks. Reducing the rate has not, thus far at least, resulted in a closer alignment between market rates and the discount rate. In yesterday's bill auction, for example, three-month bills went at 2.29 per cent, or about $1\frac{1}{5}$ percentage points below the discount rate, and this was close to the maximum spread that developed before the discount rate was reduced. The six-month bills went yesterday at an average rate of 2.50 per cent, and this spread of a full percentage point was not much less than the maximum that developed when the discount rate was 4 per cent.

The most interesting market development has been the experience with the Treasury's advance refunding. The Treasury made this offering with the major objective of breaking up the \$11 billion maturity of $2\frac{1}{2}$ per cent bonds in November 1961, and they did not expect to extend the debt substantially. They placed main reliance on the offering of \$3.5 billion of $3\frac{3}{4}$ per cent notes of 1964, and did not expect to achieve a very large exchange into the \$1.5 billion of $3\frac{7}{8}$ per cent bonds of 1968. They recognized that sizable blocks of $2\frac{1}{2}$'s were in the hands of corporations and larger banks which, for liquidity reasons, could not be expected to extend in very large amounts, and that for this reason the total exchange might not reach the amounts offered. The limitations on amount were considered necessary to keep the offering from being vulnerable to what seemed, a week ago Monday, to be a possibility of speculation, and at the same time not to discourage exchanges by reason of possible size of new issues.

As was anticipated, corporation interest has been light and the initial response from large banks has also been light. However, interest increased as the market came to understand the complex arithmetic involved in evaluating the offering from the standpoint of those who already hold the $2\frac{1}{2}$ per cent bonds. The offering of the notes can be looked upon by a holder of the bonds as an opportunity to refund the November 1961 maturity by extending it by $2\frac{1}{2}$ years, an extension for which the holder would receive the equivalent of about $4\frac{1}{2}$ per cent. On this basis, the offering was attractive in comparison with current market yields. There are, of course, other considerations such

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as original cost and related tax and liquidity problems and expectations as to the future of rates. A pickup in market atmosphere as a result of the second round of discount rate reductions has helped the offering and, at present, the prospects are for an exchange of \$2.5 to \$3 billion into the four-year notes, but only \$1/4 to \$1/2 billion or less into the bonds.

As the Committee will note from Mr. Larkin's memorandum of June 10, transactions in the July 15 bills have been very small since the last meeting, amounting to only \$6.4 million. All of these represented outright purchases. Our holdings of the July 15 bills now total \$111 million. According to the present outlook, the Treasury may well reduce the forthcoming offering of July 15, 1961 bills to \$1.5 billion--in which case the acquisition of further amounts of the July 15 bills by the Account is less important than if the full \$2 billion of these bills outstanding were to be rolled over.

Finally, I should call to your attention additional reductions in rates in all forms of prime short-term paper that developed yesterday. Bankers' acceptance rates were reduced by 1/4 per cent, and finance company paper and FNMA discount paper were also reduced in rate.

Thereupon, upon motion duly made
and seconded, and by unanimous vote, the
open market transactions during the period
May 24 through June 13, 1960, were approved,
ratified, and confirmed.

The economic review at this meeting consisted of a visual-auditory presentation in which Messrs. Thomas, Noyes, and Marget participated along with Messrs. Garfield, Williams, Solomon, and Altmann, members of the research staff of the Board of Governors, who joined the meeting for this purpose.

The text of the introductory portion of the presentation was as follows:

The breakdown of the Summit Conference at Paris four weeks ago has not been followed by dramatic developments in the economy. Sensitive material prices, for example, have continued at about the level prevailing over the past year.

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Common stock prices showed little change until last week when they advanced to a point 4 per cent below the January high. The likelihood that defense appropriations will rise now appears greater but increases being considered are not large. Industrial production in May was up about 1 per cent from April, reflecting increases in output of consumer goods and business equipment. Meanwhile, retail trade in May fell back from the advanced April rate and in June steel mill operations have been only a little above 60 per cent of capacity.

Reviewing events from the recession low of April 1958, we see that rapid expansion brought industrial production up more than a fourth in 14 months to a level, in June 1959, 10 per cent above the 1957 average. Production in June last year included considerable output of steel and steel products for inventory. In fact, over the past year wide fluctuations in output have reflected, more than anything else, extensive anticipations and repercussions of the four-month steel strike, and cyclical changes have been less clearly defined than usual. The index of industrial production, to be released tomorrow afternoon, will show 110 for May, the same as June last year. From June 1955 to May 1956, the comparable period of the previous cycle, it rose from 96 to 99.

Gross national product, now estimated at an annual rate of a little over \$500 billion in the second quarter, is up moderately from a year ago. In real terms GNP will probably show a rise of about 1-3/4 per cent from midyear to midyear as against 2-1/2 per cent in 1955-56.

Unemployment, which had declined from a rate of 7-1/2 per cent in mid-1958 to 5 per cent in mid-1959, has since shown little net change, as in 1955-56, but is appreciably above the rate of mid-1956.

Industrial prices, which advanced during most of the first year of recovery, have shown little change over the past year. This is in sharp contrast to what happened from mid-1955 to mid-1956 when there were widespread increases in prices. Prices of farm products have risen more than seasonally so far in 1960 as they did in 1956.

While wholesale prices have been stable over the past year, the consumer price index has risen nearly 2 per cent, reflecting continued marked advances in services and some increases in commodities. This is more increase in consumer prices than occurred in the corresponding period from 1955 to 1956, but it seems unlikely that in the year ahead the index will show any such advance as the 4 per cent rise from mid-1956 to mid-1957. Taking into account also developments in markets for real property and for securities, and in the monetary and fiscal

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situation, it is evident that inflation is by no means as inevitable as many analysts thought only a short time ago. Now, one question being asked is whether the economy can operate at a high and rising level without inflation.

Fiscal and monetary developments have been of special interest over the past year. The shift from a \$13 billion cash deficit in fiscal 1959 to a small anticipated surplus in fiscal 1960 and the prospect of a considerably larger surplus in fiscal 1961 was one of the key factors discouraging inflationary expectations and reversing the course of interest rates last winter.

Early restraint on monetary expansion was another key factor in keeping demand from assuming inflationary proportions. Now, although bank reserve positions have been eased in recent months, the private money supply is still declining and activity in the economy is still appreciably below capacity. Questions naturally persist as to whether credit is available in sufficient amount and on such terms as to be conducive to higher and rising levels of activity without revival of inflationary pressures.

The money supply has been declining since last summer and was down by \$1.6 billion before the large decline last month, which may have been due, for the most part, to a temporary increase in Treasury deposits. For six months last year, from April to October, the turnover of deposits showed no increase. Since then, however, turnover has risen at an average rate of 1 per cent per month. Holdings of liquid assets other than money have also risen further--although not so rapidly as the year before. Most recently, interest rates in markets for both short- and long-term funds have been moving down, reflecting not only a sharp reduction in Treasury requirements this year, but also some reduction in other credit demands.

As was widely noted, the same day that the discount rate was lowered at Philadelphia and San Francisco, the rate at the German Federal Bank was raised. In fact, in many foreign countries, the current problems of adjusting monetary policy to economic developments contrast sharply with those in this country.

There followed sections dealing with developments abroad, price developments in the United States, inventory demands, demands for capital goods, residential building activity, consumer demands, recent changes in the money supply, and changes in credit and equity markets.

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The significance of recent business and financial developments for monetary policy was discussed in a concluding appraisal, as follows:

The review this morning has touched on the business investment boom developing abroad and has covered in more detail the less exuberant situation in the United States.

In this country output is below plant capacity by a margin probably larger than would be necessary for sustained growth without inflation and unemployment continues around 5 per cent.

Exports are now expanding in relation to imports but in none of the broad categories of domestic demand--inventory accumulation, capital goods, residential building, consumer spending, and Government activity--is any great upsurge evident at this moment.

In appraising the present situation and looking ahead, note may well be taken also that the current physical volume of output--real GNP as well as industrial production--is above the high of 1957 by as much as output in 1956 was above the high of 1953. Furthermore, this level has been achieved without price advances of the magnitude that earlier raised basic questions about the possibility of avoiding creeping inflation, and of maintaining a volume of saving adequate to provide for a high rate of growth in the economy. Thus a good start may have been made toward laying the foundations for a more sustainable prosperity and a higher rate of growth over the longer term.

With regard to monetary policy, net borrowed reserves have been progressively reduced since the beginning of the year, as required reserves declined more than seasonally and as the System has purchased Government securities in recent weeks. Compared with average net borrowed reserves of \$450 million in the last quarter of 1959, there has been a small free reserve position in early June. The recent reduction in Reserve Bank discount rates to 3-1/2 per cent has also tended to ease restraints on bank credit expansion.

In the period ahead monetary policy will be operating alongside a fiscal policy likely to provide for no great change in Federal expenditures and to result in a moderate cash surplus. Increases in demand thus will be needed from other sectors to absorb some of the resources not now utilized and to make use of additional resources becoming available.

Such increases in various private and local government demands may be facilitated by the greater availability and lower cost of credit now becoming apparent as a result of developments in the economy generally and in monetary policy.

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Banks apparently began the year 1960 with policies quite restrictive with respect to some types of loans. These policies tended to keep loan growth moderate, particularly at city banks. Real estate and security loans at these banks declined in early 1960 and growth of consumer loans slackened. Business loans, after declining sharply in January, advanced briskly in February and March when metals manufacturers were borrowing heavily for rebuilding inventories, and then beginning in April expanded more moderately as these inventory demands abated.

Despite the moderate rate of loan expansion and the easing of reserve positions, banks reduced their holdings of Government securities through May 1960 almost as much as in the same period in other recent years when loan expansion was unusually rapid. The reduction was mostly in Treasury bills and other short-term securities, while holdings of 1 - 5 year securities increased. These shifts reflected, in part, changes in the maturity composition of the public debt but also the continued demand for Treasury bills by nonbank investors. Under the pressure of these demands, Treasury bill rates declined to below the discount rate, giving banks an inducement to sell bills in order to reduce their borrowings as well as to make loans.

As we approach midyear, the question whether banks are in a position to extend credit to facilitate expansion in private demands becomes more pertinent. At city banks, business loans have shown no marked change in recent weeks. The reduction in real estate loans at these banks, however, has slowed somewhat and growth in consumer loans has accelerated. City banks have continued, however, to reduce their holdings of Government securities. Although borrowings at the Reserve Banks have been reduced considerably from early in the year, city banks still have a large volume of other indebtedness, consisting mostly, but not entirely, of purchases of Federal funds from other banks.

As a result of further declines in yields on Treasury bills since the discount rate reductions, a wide gap between these rates remains. Thus banks may continue to find borrowing at the Reserve Banks a relatively costly means of reserve adjustment, but with the level of borrowing lower, this differential should be less significant than early in the year. Except for temporary variations, seasonal changes in reserve needs will be moderate in the next few months.

In establishing policies at this time, the Committee faces a situation in which the immediate outlook seems to be for little change rather than marked expansion or decline in

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economic activity and there seem to be few inducements for speculative commitments in either direction. Meanwhile activity is at a comparatively high level and prices are relatively stable. In implementing policies, the System faces a question as to how responsive the banking system may be in the period ahead to given changes in net reserve positions and interest rate differentials and also questions as to how changes in bank credit may be related to changes in the whole credit structure and in final demands for goods and services. It is always possible that market shifts in the economic situation are in the making even when available information suggests little change. Credit restraints have been greatly eased, if not fully removed. For monetary policy, the period ahead perhaps should be one of watchful waiting.

It was understood that copies of the text of the economic presentation and accompanying charts would be sent to the members of the Committee and the Presidents not currently serving on the Committee as soon as available, and that copies would be placed in the files of the Committee.

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

Although some of the business data that have become available during the last three weeks have been disappointing, they do not alter the prospects of further moderate business expansion in the second half of the year. The disappointing statistics had to do principally with the level of consumer spending, which was slightly less than the record spending in April, and with the new orders outlook. The weakness in new orders has centered in only a few sectors--notably steel, appliances, and defense items; and in any case the decline in orders may reflect a welcome growing confidence in an easier supply situation and in general price stability. Encouragement may be found in the likelihood that steel output and housing construction have about touched bottom, in the continued favorable trend of exports, and in the favorable employment figures just released. The new SEC data are also encouraging evidence that business investment plans continue largely unchanged. The course of stock prices, while doubtless affected by the reduction in discount rates, also suggests a more optimistic view of the business outlook.

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I think we can find satisfaction in the fact that the summit fiasco has been taken in stride, with no significant reaction in the world commodity markets, and with no evidence that it has generated pressures for significantly higher defense spending or has caused major new uncertainty in the business outlook.

A review of postwar business expansions, including the present one, suggests the possibility that a new alternative pattern may be developing for the late stage of a cyclical expansion. Instead of the typical pre-World War II inflationary upsurge prior to the upper turning point, often accompanied by dramatic financial developments, we seem more recently to find a situation in which the forces which caused the original expansion exhaust themselves before the ceiling of productive capacity is reached. Signs of exuberance fade away, and the economy coasts along on a high and perhaps even rising plateau, with commodity prices staying stable. If there is any substance to this analysis, it may call for a different type of credit policy from that which we would have followed under the old pattern. We may regularly face a situation well before the cyclical turn when a sustaining support from monetary policy, such as we have been endeavoring recently to provide, can prolong the period of high level activity without generating or validating speculative expectations.

Recent figures on bank credit point to a continuing growth of business loans about in line with seasonal expectations. If we take into account total liquid assets of nonbank holders rather than the money supply alone, we find no clear basis for believing that inadequate liquidity is restraining spending on goods and services. Moreover, it is interesting to note that since early April the effects of System policy, at least as reflected in the trend of nonborrowed reserves and required reserves, have been expansionary on balance.

It seems to me there should be no change in the objectives of open market operations in terms of the feel of the market or free reserves. However, I think we should perhaps be somewhat hesitant to try to force an increase in the money supply if the effect is to drive market interest rates even lower than they now are. I would expect that the Manager should have authority, as usual, to provide reserves required in connection with the holiday currency drain and statement date cash needs in the week ending July 6. Perhaps this might be a favorable occasion also to consider the release of additional vault cash, especially as it might make funds available directly to the country banks and reserve city banks, where pressure has apparently been greatest. At the same time the present plateau in economic and

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financial affairs may provide an opportunity to take a modest step in the direction of equalizing central reserve city and reserve city requirements. However, if this were to be considered, it might be desirable to make clear that such an action was only the first step in a scheduled program of reductions rather than an action motivated by broad policy considerations related to economic conditions. This might be accomplished by announcing a schedule of reductions to occur at various specified times, when it is expected that the market will need reserves, over the course of the next six months or one year.

The discount rate would not seem to call for any attention today, and the present directive strikes me as quite satisfactory.

Mr. Johns made substantially the following statement:

The chief problem facing the Committee, it seems to me, is to reverse without further delay the downward trend of member bank reserves which has persisted notwithstanding the Committee's directive of May 24 to supply reserves needed for moderate bank credit expansion. For the period May 24 through June 8 the Federal Reserve Bank of New York reports that the daily average of total reserves was \$197 million less than the daily average of the preceding three weeks. We estimate that on a seasonally adjusted basis the amount of this decline was not that great but nevertheless was a decline. In the longer run, New York reports that the daily average of total reserves for the March 17-June 8 period was \$434 million less than the daily average for the December 10, 1959-March 16, 1960 period. Seasonally adjusted, we estimate that this decline was of about the same magnitude. The persistence of the decline in total reserves for several months past has heretofore been the subject of considerable comment at this table. The notable fact today, I think, is that despite the Committee's directive of May 24, the contraction in total reserves has continued in tandem with a decline in required reserves, thus indicating that contraction of bank credit, rather than expansion, was occurring. Obviously, I think, the Committee needs to concentrate on the problem of how to accomplish the objective stated in its May 24 directive.

I am aware of no developments in the past three weeks that should, on net, cause the Committee to deviate from the policy objective last determined, i.e., a moderate rate of bank credit expansion. Insured unemployment remains above year-ago levels. The rate of steel production is discouraging. The decline in interest rates since the beginning of the year, despite a continuing restrictive decline in the stock of reserves and the money supply, indicates that inflationary pressure is lacking.

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A decline of market interest rates of the magnitude and duration of that of the last five months has never, I think, been associated with a period that proved to be one of continuing prosperity.

The reduction of discount rates since the last meeting was in my opinion wholly appropriate, but I think this should not be considered as eliminating or mitigating the need for growth in the total reserves of member banks. The discount rate which prevailed from February to June was instrumental in reducing borrowings at the Reserve Banks from about \$900 million to less than \$400 million. Since the discount rate is still above short-term market rates, there is continuing pressure on banks to reduce their borrowing, and therefore we probably cannot look to this source as a means of increasing reserves. In the next few weeks a large volume of currency is expected to flow into circulation, reducing bank reserves. Hence, it will probably take a sizable injection of reserves in order to offset these market forces, to make up for the past decline in reserves, and to provide the basis for growth in bank credit and money.

It appears to me that this may be a fortunately appropriate time to provide reserves by allowing member banks to count more of their vault cash as reserves and to eliminate, at least in part, the differential in reserve requirements between central reserve city and reserve city banks. Quite aside from the matter of timing, it seems to me that there are reasons for making progress toward the objectives prescribed by the Congress with respect to vault cash and central reserve city bank reserve requirements. However, the need for reserves is uppermost in my mind at this time, and I regard that need as urgent.

On the basis of what I have already said, it follows that I would leave the directive unchanged today.

The comments by Mr. Bryan on Sixth District developments and on monetary and credit policy were substantially as follows:

The economic situation of the Sixth District does not differ sufficiently from the national situation to merit detailed discussion. Our figures, together with the reports of Branch and Head Office Directors, indicate that the District is operating at a high level and, if anything, with a slight upward bias. There is no general pessimism in the District; neither is there any great optimism. I must report again that our news from Florida is pessimistic. However, this pessimism, so far as we can judge it, merely means that Florida is in the process of descending from outer space into the stratosphere.

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My impression is that the banks of the District are under continuing heavy pressure. That impression comes from the prolonged existence of disproportionate and continuous borrowing from the Atlanta Reserve Bank, from loan and investment data, and from the number of banks showing persistent deposit declines as measured against a year ago.

As for policy, it seems to me that we should not, for many reasons, push the panic button. However, I believe that the situation requires a policy of consistent, moderate increases in the supply of bank reserves. I also feel that the shift from net borrowed to free reserves during each of the last three weeks is deceptive; for, although member bank borrowing dropped in that period from the \$550 million level to the \$400 million level in the week ended June 8, required reserves in the same period fell by nearly as much.

As for total reserves, the Atlanta figures indicate, on a seasonally adjusted basis (revised) that there has been a decline in reserves from December 1959 through May 1960 amounting to \$546 million, allowing for no growth factor at all. I do not regard this development with equanimity.

As I have said, it now seems to me that, without pushing the panic button, we should begin a policy of steadily increasing reserves in moderate amounts; and I would at this time advocate an increment composed of three elements:

- 1) An increment at a 3 per cent annual rate, which would be \$47 million for June;
- 2) A June seasonal, which would be plus \$36 million;
- 3) And a slow correction of the decline that took place between December and May. I would suggest for June \$100 million.

Since actual reserves, on a daily average basis, were \$18,236 million in May, I would come out with a daily average reserve target of \$18,419 million for this month. That target would require considerable activity on the part of the Account, for we have, in the latter part of May and in this month, through June 8, permitted total reserves to decline substantially. The average for the week ended June 8 was \$18,109 million.

While I have advocated a steady moderate increment to reserves through open market operations I have considerable concern about any action that would precipitate a large immediate reduction in short rates. Consequently, as an alternative to open market purchases, I would join with others

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in suggesting to the Board that it might be appropriate to consider increasing reserves by increasing the vault cash allowable, which would be spread throughout the country and be less likely, I feel, to precipitate an immediate large reduction in short rates; and, secondary to such a step, I would join with others in suggesting for the Board's consideration some further equalization of reserve requirements as between central reserve cities and reserve cities.

If it is agreeable, I would like to distribute to the members of this group the Atlanta charts on total reserves and the derivation of the target figures I have used here today.

Chairman Martin indicated that there would be no objection to distribution of such material.

Mr. Bopp said that developments in the Third District had been mixed. For every favorable development it seemed that there was also an unfavorable one. By and large the movement had been sideways, but at a relatively high level.

As to policy, Mr. Bopp said he would like to see an expansion of the reserve base, but without forcing down short-term rates unduly. He found himself attracted to the possibility of providing reserves where they were most needed by releasing additional amounts of vault cash for inclusion in required reserves. He would not favor changing the directive or the discount rate at this time.

Mr. Fulton said that the trend of Fourth District activity could be characterized as sideways. Steel production was still at a low point, and the customers of the steel companies appeared to be living off their inventories longer than anyone had expected. However, the order books now seemed to be leveling off somewhat, and no further abrupt decline was

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anticipated. Estimates of steel production for the year as a whole had now been revised to around 112-115 million tons, well below the 130-135 million tons that were forecast earlier in the year. According to the current estimates, production would not reach the 1955 total of 117 million tons, which was the highest on record. Steel requirements of the auto industry for production of the new model cars were affected by the prospect that approximately 50 per cent of the new cars would be of the smaller varieties.

Mr. Fulton went on to say that construction in the District was up a little, but for the year to date was lower than in most recent years. Production of heavy machinery was going at a fairly substantial rate, although shipments were small because of the time needed to build such machines. While the aluminum industry was expecting an increase in shipments of from 7 to 10 per cent over last year, the situation was not satisfactory because of low prices and increasing costs. At the same time, the industry expected greater amounts of aluminum to be used in the future, and research and development programs were in high gear. Retail sales in the District were holding up fairly well, but auto sales had sagged somewhat in the past couple of weeks. For the year to date, department store sales were about 3 per cent above last year.

Bank loans had increased, Mr. Fulton said, and loan demand was reported strong in most areas. Member banks had not been using the discount window inordinately; borrowings were running at only about

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2 per cent of the System total. Free reserves were shown for the District as a whole.

In summarizing, Mr. Fulton repeated that the movement in the Fourth District appeared to be sideways. Expectations were for an upturn in the last quarter of the calendar year, but if that upturn did not begin to manifest itself by August the District probably would be in for a rather bad time.

Mr. Fulton said that he would not recommend changing the directive or the discount rate at this time. As he had indicated at the Committee meeting on May 24, he would be favorable to permitting additional vault cash to be counted as required reserves. He would favor aiming for a somewhat higher dollar volume of free reserves. In mentioning a range from zero up to \$150 million, he indicated a preference for the latter figure in contrast to the figures closer to zero that had persisted in the past few weeks.

Mr. King noted that most of the comments made thus far had been similar in character and said that he found himself in agreement with almost all of the views expressed. In his opinion there was no need to consider at this time any change in the wording of the directive, but he felt that the figures on net borrowed and net free reserves might be somewhat deceptive. The reports he got from banks in different parts of the country were to the effect that quite a few smaller, and some larger, banks still found themselves in a rather tight position. This was a time, he suggested, when anything the System could do, within reason, to

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give the economy as a whole a little nudge and push forward would be appropriate. Many small businesses with which he was acquainted were operating at a high level of activity but on narrow profit margins or even at a loss, and a lot of them could fall off the fence very fast. He was not sure what means it would be appropriate for the System to use. He did not think, for example, that forcing short-term rates lower or encouraging them to drop substantially, as in 1958, would be in order or would produce good results in the long run. On the other hand, whatever actions the Open Market Committee or the Board might take to give some encouragement to the picture as a whole would seem appropriate. The reduction of the discount rate was in his opinion an action that did help the general psychology of the business community. It was an encouraging thing for the business community to have a tangible sign that the Federal Reserve could be flexible in one direction as well as the other. However, further reductions of the rate probably would not produce the results for which he was looking. What he desired was something that would help in pushing the economy forward to a period of stable, high-level activity.

Mr. Robertson said that he did not view the picture in the same way as others apparently did, judging from the comments around the table thus far. In his opinion, the pessimism reflected in those comments was not justified by the facts brought out in the economic discussion and accompanying charts. As he saw it, the position of the economy was now favorable, and the economy could move in either direction. Likewise, the System could move in either direction. He saw no reason for adding to

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the supply of reserves merely for the sake of doing so. Instead, he felt that the System must gear itself to the economy and what was needed in terms of reserves. The System should stay where it was at present and move sideways along with the economy, watching carefully all movements and trends, which could be in either direction. He would not favor changing the directive or changing policy. He would be neither easier nor tighter, and instead would pursue a policy of watchful waiting.

Mr. Mills said that to him the economic review and the comments on the credit outlook that preceded the general discussion today revealed a cloudy situation, one in which it was difficult to foretell with any accuracy the course of events. As a phase of that difficulty, he sensed a groping by those who had spoken around the table for an appropriate policy position. This caused him some concern because he believed it important to guard against a temptation to take a proprietary interest in some line of reasoning that would lead to fixed policy attitudes and positions from which extrication might be difficult. Personally, he must admit vulnerability to such a charge with respect to his own reasoning, but that did not excuse the fact that one should be cautious about the positions he took in a period such as the present. His approach to System policy at this time was set forth in the following statement, which he then read:

The growing evidence of slackening economic activity raises the question of the extent to which an easier Federal Reserve System monetary and credit policy might be expected to reverse present trends by stimulating an expansion of credit. In the light of historical experience, a broad base for credit

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expansion has not proven to be a very effective stimulant for an economy that is moving downward from the peak of a major business cycle. Although there are not conclusive signs that the United States economy is moving into a drastic cyclical change, even so it is unlikely that at this juncture the forced injection of reserves into the commercial banking system would reverse the trend of economic developments.

Under other circumstances and economic conditions, such as have been experienced in the minor recessionary movements of recent years, an aggressive injection of new reserves into the commercial banking system by way of Federal Reserve System open market policy actions in the Treasury bill sector of the U. S. Government securities market would produce a lower level of short-term interest rates whose effect would in due course be transmitted to the intermediate and long-term sectors of the U. S. Government securities market, with a consequent lowering of interest rates for long-term obligations, thereby enhancing the incentive for borrowing in the long-term markets to finance expanded capital investment programs. Considering the growing slackness that is occurring in economic activity, it is unlikely that lower interest rates would offer sufficient attraction to industrialists to undertake new capital programs when over-capacity is already apparent in many segments of industrial and commercial fields of endeavor.

Viewed in this light, an aggressive injection of new reserves into the commercial banking system would undoubtedly force short-term interest rates down to unrealistic levels and in the process of doing so risk the avoidable possibility that funds would be diverted from the United States money markets to foreign money markets in quest of more generous interest returns on short-term investments, and at the expense of a further outward movement of gold from the United States. It is granted that the adoption of a monetary policy of aggressively active ease would in due course be reflected in a lower long-term interest rate structure but, as indicated, there are not sound grounds for believing that lower long-term interest rates at this time would serve as an incentive for stimulating capital investment programs.

A more viable Federal Reserve System monetary and credit policy would be one that would continue to maintain a modest volume of positive free reserves on which the commercial banks can expand their credit commitments and, in doing so, prevent any further shrinkage in the money supply. There are already indications that the Federal Reserve System's current policies are bearing fruit in some tendency for banks in larger centers to increase their loans and investments. In view, however, of the general illiquidity of the commercial banks and their

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growing efforts to correct this kind of situation, it is unlikely that the commercial banks will be inclined to expand their loans and investments in a major way, and in probability such steps as they take in that direction will be by way of increasing their holdings of short-term U. S. Government securities. If this proves to be the case, the joint action of the commercial banks in expanding their Treasury bill holdings will of itself exert a downward impact on Treasury bill yields, which would be aggravated disadvantageously if the Federal Reserve System were in turn to operate aggressively in the open market as a purchaser of U. S. Treasury bills. Collateral effects would, in my opinion, stem out of either changes in the vault cash requirements or early reductions in legal reserve requirements.

In due time an expansion of commercial bank loans and investments, commencing in the central reserve city bank sectors, should witness some movement of the deposits generated by these actions into the reserve city bank and country bank sectors where an improvement of individual bank deposit positions should act as an encouragement to their own loan and investment expansion, with the result that a moderate and desirable expansion of commercial bank credit would take place on a national scale. The gist of this reasoning is that at the present juncture the economy can best be served by a Federal Reserve System monetary and credit policy that will provide a moderate base for commercial bank credit expansion, but will avoid an excessive injection of new reserves, the effect of which would only be to distort unrealistically the entire interest rate structure with harmful economic consequences.

Mr. Leach said incomplete data and reports for the past month indicated that the Fifth District's manufacturing industries probably maintained a rate of activity close to the high levels of April. Department store sales, on the other hand, went from one extreme to the other in declining to the lowest volume in over a year. The cotton textile industry had some weaknesses, such as the lagging demand for industrial fabrics, but in general it was still a sustaining factor of strength in the District economy. Conversely, new orders in the furniture industry had been declining, and no increase in supporting strength had been evident at the retail level. In addition to continued poor demand from

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foreign markets, coal production was feeling the effects of declining steel operations. On the other side, construction had been an element of strength in the economy all year. In the agricultural sector, planting and crop growth were running quite late and income continued below year-ago levels. In general, available evidence indicated that Fifth District business activity had held at or near the high levels attained earlier, had shown some signs of uncertainty, but as yet had not moved discernibly toward either contraction or renewed expansion.

Mr. Leach reported that although there had been in recent weeks a slight reduction in loans outstanding at weekly reporting member banks and a decrease in their borrowings from the Reserve Bank, Fifth District banks continued to borrow Federal funds and liquidate investments. Bankers stated that they continued under pressure and were still forced to screen loans with more than ordinary care.

Turning to policy, Mr. Leach said that since there had been a movement from a substantial net borrowed to a free reserve position, along with a reduction in the discount rate, it could be argued that before taking further measures the System should wait and see how much easing would result from these actions in the next few weeks. On the other hand, it could be maintained that the position of the banks had not yet eased as much as would be desirable and that there would seem to be little inflationary danger in adding \$100 million, or thereabouts, to free reserves in the next three weeks, although this might tend to force short-term rates still lower. Now that borrowings had fallen from a

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\$900 million to a \$400 million level, additional free reserves were more apt to reverse the decline in total reserves and permit bank credit to expand. On balance, he was inclined to favor maintaining substantially the present posture, resolving all doubts on the side of ease. Under such a policy, he would expect that free reserves would fall in the zero to \$100 million range. He would not recommend changing the directive or the discount rate. To provide the reserves that would be needed for seasonal reasons, he would favor utilizing the vault cash mechanism at the appropriate time.

Mr. Leedy said there were no new developments of significance in the Tenth District. The picture as presented for the nation in the chart show reflected Tenth District conditions quite well, although in several respects conditions were not quite as favorable as indicated by the national picture. On balance, perhaps, the economic level of activity in the District was somewhat lower than nationally.

As to System policy, Mr. Leedy said it was his view that the objective of adding somewhat to bank reserves, with a view to encouraging an increase in the money supply, should be continued. However, he felt that this should be done in a moderate way. Looking at the period ahead, the projections indicated that for the next two weeks there might be little reason for System operations. Assuming a runoff of \$98 million of bills this week, the level of free reserves for the week ending June 22 apparently would be around \$100 million, and for the week following they would be at about the same level. Thereafter, however, some

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problems apparently would be presented; if the System did not supply reserves, there would be substantial net borrowed reserves for a couple of weeks.

Mr. Leedy said he had the feeling that the recent reduction of the discount rate had produced more in the way of results, as far as the bill rate was concerned, than was anticipated. The performance of the market had been such as to cause one to be hesitant about taking any further overt actions immediately. The Committee could make some additions to reserves, but care should be exercised not to force down short-term rates too much further. He did not feel that the Committee could take total reserves as the objective and disregard completely the bench mark it had been using, which for the period ahead would be free reserves rather than the net borrowed reserves that had existed until recently. Over this period he would attempt to add moderately to the supply of reserves available to the banking system, but he would not undertake to do anything in the way of providing reserves through the vault cash mechanism. There might be an opportunity a little later to do something of that kind, and if so he would look on such a move favorably. For the present, however, he would not favor moving on vault cash or toward reducing the differential in reserve requirements between central reserve and reserve city banks. He was apprehensive of the interpretation that might be placed on such moves, if they were taken, in the light of what had been going on in the stock market and also from the standpoint of the bill rate.

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Mr. Allen said that employment in the Seventh District continued to be less vigorous than in the nation as a whole. Three cities were classified downward in May by the Bureau of Employment Security, and in the four weeks ended May 28 new claims for unemployment compensation exceeded a year ago in each of the States of the District by a higher figure than the national average. Employers' reports to State agencies showed a majority looking toward a reduction in force or at least further cuts in hours. Home building had not shown the pickup in the District, or nationally, that had been hoped for earlier. In Chicago, housing starts were 21 per cent under the year-ago figure in May, and a recent survey disclosed the unfavorable factor that building costs were somewhat higher than last year. Department store sales in the District for the four weeks ended June 6 were off 3 per cent from last year compared with a drop of 1 per cent for the nation. Sears Roebuck's sales dropped below last year in May for the first time this year. Their economist, however, reported the sales trend of the past three weeks as favorable and indicated that inventories are "about right" in relation to sales.

Mr. Allen noted that automobile sales for the first five months were 2,660,031, or 12 per cent more than in the first five months of 1959. The daily sales rate for the first ten days of June, however, was expected to be between 20,500 and 21,500--a disappointing figure--somewhere from 1 to 6 per cent over last year. Sales should be 23,000 to 25,000 to support current production schedules and to whittle down record inventories. Probably it would be necessary to become accustomed to

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higher inventory figures, with so many car makers either producing or preparing to produce compact models in addition to their former lines. This might turn out to have been a transitional period if, as some felt, the manufacturers of so-called medium priced cars, while offering compacts plus the old lines in 1961, were ultimately to give up the old lines and confine themselves to compacts.

Commercial and industrial loans at reporting banks in Chicago, after expanding sharply in the first three weeks of May, had now declined for three consecutive weeks, although only by \$35 million. The major factor had been net loan liquidation by firms in the metals industries. Chicago central reserve city banks improved their basic reserve position by more than \$100 million since May 18, but still showed a basic deficit of \$165 million for the week of June 8. Although these banks sold a large volume of securities, a substantial deposit loss, mainly via Treasury calls, absorbed some of the reserves provided by asset liquidation. The improvement in basic position, plus continued availability of Federal funds, made it possible for these banks to curtail their use of the discount window. In fact, none of the six largest Chicago banks borrowed from the Reserve Bank during the reserve period ended June 1, a notable event. Total Seventh District borrowing in the first full week of June averaged only \$51 million and accounted for less than 13 per cent of the System total, the lowest share since late January.

In summary, Mr. Allen said, there seemed to have been more unfavorable than favorable business news in the past three weeks. He had

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not concluded that a general downturn had begun, but it appeared that the sluggishness which had characterized many lines of business activity through the current year would continue for some months to come. Therefore, the trend of monetary policy, including reduction of the discount rate, appeared to be justified. He would not urge further easing at this time, but if the Board of Governors considered this an appropriate occasion to add to vault cash reserves or to move toward equalization of central reserve city and reserve city bank reserve requirements, he would not feel that such action should be criticized or that its effects would be harmful.

Mr. Deming reported that the economic picture in the Ninth District had shown no appreciable change in the past three weeks. The main point he wanted to make, however, was that the banking picture also showed no change. The banks were not any easier than three weeks ago; as a matter of fact, they did not seem to be any easier than three months ago, perhaps even a little tighter.

Mr. Deming said that he found Mr. Mills' statement this morning most interesting. He was in general agreement with Mr. Mills' broad conclusion and with his admonition to approach the present situation cautiously. However, he saw the banking picture as being somewhat tighter than did Mr. Mills, and therefore he would be a bit less cautious. Against the background of Ninth District developments and the national economic and financial picture, as presented today, he concluded that there was no particular danger in moving toward an easier position--moving

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modestly, probing, but nevertheless moving. However, while there might be no particular danger from a broad economic standpoint, there were obvious technical difficulties--particularly the short-term interest rate picture--that attended a movement, however cautious, toward more ease.

Assuming that the reserve projections were reasonably accurate, Mr. Deming felt it would be feasible to let market factors do much of the System's work in providing more ease in the next couple of weeks. After that time more positive action might be required, and he concurred in the suggestion that action by way of releasing additional vault cash for reserve credit might be considered. While he had no particular enthusiasm for reducing the differential between reserve requirements at central reserve and reserve city banks at this time, because it seemed to him that the reserve city banks needed more relief than those in New York or Chicago, he would not object to such action. Something must be done in this area at some time within the next couple of years, and this might be one of the times when action could be taken with the least difficulty.

Mr. Mangels reported that employment in the Twelfth District showed little change in May from April, which in turn had shown little change from March. Steel production improved somewhat in May, with operations at 72.6 per cent of capacity against 70.8 per cent in April, but estimates for the first week in June indicated a marked decline to 67 per cent of capacity. In the lumber areas of the Northwest the situation was unsatisfactory, with declining orders and production. At

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the May 24 Committee meeting he reported that some mills had closed down; now about one-third of the plywood producing capacity in Oregon and Washington had been shut down, and the mills still operating were on a three- or four-day week basis. Construction was down about 13 per cent in April, with residential and nonresidential construction both below the March and the year-ago levels. For the first half of May, automobile sales in California were 14 per cent below the first half of April. Department store sales showed practically no change from a year ago.

Turning to the agricultural situation, Mr. Mangels commented on union picketing of tree-fruit areas in California. In the past two weeks the estimated loss amounted to \$300,000, and the potential loss was estimated as high as \$40 million. It was hoped generally that the State authorities would not allow the picketing to jeopardize the public interest to the extent of a substantial reduction in the supplies of tree fruits. In the Northwest a cold spell had caused some frost damage to area crops.

In the past couple of weeks, Mr. Mangels said, District bank loans increased about \$50 million per week while demand deposits were down about \$100 million per week. The demand for credit was reported by bankers to be heavy, and the banks were said to be in a rather tight position, but borrowings from the Reserve Bank were quite nominal. Although purchases and sales of Federal funds aggregated \$2.8 billion in the past week, the transactions about balanced out, with net sales of \$24 million.

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The over-all situation, Mr. Mangels said, still appeared to be fairly good, but there were certainly no clear indications of an upward trend. Comments by bankers and businessmen reflecting some concern about business prospects for the remainder of the year continued to be heard. Although the directive was amended at the May 24 Committee meeting to call for supplying reserves needed for moderate bank credit expansion, that expansion had not yet been accomplished, the funds supplied apparently having been used primarily to reduce Reserve Bank borrowings rather than to increase investments and loans. Under these circumstances, Mr. Mangels said that he would use as a goal free reserves somewhere between \$100 and \$200 million. He regarded the discount rate and the directive as satisfactory.

Mr. Irons said that Eleventh District conditions were generally satisfactory, with the sideways trend prevailing that had existed for some time. Most areas were at or near their highs, not showing a great deal of added strength or, on the other hand, any particular tendency to weakness. If there was any bias directionally in the Eleventh District, it probably was slightly upward. Retail trade had improved a bit from a rather unfavorable level in May, and construction was up. The agricultural situation was favorable and promising, and employment was probably rising about seasonally. There was no change in the petroleum situation of any real significance.

The District banking picture showed little change, Mr. Irons said. The banks were not borrowing heavily from the Reserve Bank, but

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they continued to use Federal funds, although to a somewhat lesser extent than earlier. The District was not contributing to the decline in bill rates because the city banks had few bills or certificates in their portfolios; they were reluctant to sell long-term Governments and take the loss involved. A week ago, total bill holdings of 39 weekly reporting banks were only about \$30 million. Borrowings from the Reserve Bank would be higher if the Bank was not following the principles of Regulation A in respect to continuous borrowing. If those principles were disregarded, the Reserve Bank could quickly get an increase in borrowings of \$50 to \$75 million. The reserve positions of the banks were firm, yet the banks reported that they were meeting essential credit requirements.

Mr. Irons expressed the view that this was a period when the term "watchful waiting," as used by Mr. Thomas in the economic presentation, was quite appropriate. He was not pessimistic about the economic situation, and he thought it would be a mistake to attempt aggressive easing of the credit situation. Accordingly, he would like to see policy held in about the status quo, with no attempts to force funds into the market. He was concerned about the substantial change in bill rates that had taken place.

At the May 24 meeting, Mr. Irons recalled, he spoke in support of a change in vault cash provisions. Since that time, however, the System had made rather substantial purchases of securities in the market and the discount rate had been reduced. Therefore, he would not prefer to maintain the status quo, and not take action on vault cash or action to reduce

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the differential between reserve requirements of central reserve city and reserve city banks. In that way the System would be able to move, either moderately or sharply if necessary, one way or the other. He felt that the possibility of favorable and strengthening economic conditions should not be disregarded or discounted too heavily. In his opinion, the Committee, under prevailing conditions, should avoid a tendency toward deciding at each meeting to pump more reserves into the market. Instead, it seemed better to take a breathing spell for the next three weeks, to maintain the status quo, and to watch the situation closely.

Mr. Erickson reported that in the First District there was still a generally high level of economic activity although, as in other districts, some segments of the economy were performing better than others. The New England industrial production index from February through April was in the range of 117 to 118. Nonagricultural employment was up, slightly more than for the nation as a whole. Some industries, however, were not in as good a position as a year ago. The strike at the Bethlehem Steel shipyards had now gone on for 20 weeks, and a United Aircraft strike, which began two weeks ago, affected 30,000 workers. One more community in the District had been classified as an area of substantial unemployment.

Mr. Erickson recalled that he had reported previously a trend in construction in the District counter to the national trend. However, April was a poor month, down 40 per cent from April 1959, which was a record month, 72 per cent ahead of 1958. Accordingly, the cumulative figure on construction in the District for the first four months of this year was

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down more than for the nation as a whole, although residential construction was better than the national picture. Department store sales were still good; through June 4 they were up 3 per cent from last year. The gain in personal income also was better than for the nation, and the figures on business loans, measured either for the past four weeks or from the first of the year, also were better. In the past three weeks, District banks were net purchasers of Federal funds to the extent of \$800,000,000. The use of the discount window was relatively small in total dollar amount, but many country banks were using the window. Their deposits were down and loan demands up, and relatively few of the banks had much in the way of bills to sell.

Mr. Erickson expressed agreement with those who had suggested that during the next three weeks a policy of watchful waiting would be in order. He would recommend no change in the directive, the discount rate, or the instructions to the Desk, and he would maintain the status quo as nearly as possible. As to vault cash, he agreed with the analysis presented by Mr. Deming. He would not do anything for the next few weeks, but if there was a time when the System had to supply reserves later on, he would give some consideration to releasing additional vault cash to reserves. He would make no move at present on the reserve requirements of central reserve city banks.

Mr. Szymczak expressed agreement with those who had recommended no change. The time was one for re-evaluation, and he felt that the System should add to the supply of reserves only sparingly. He would favor

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maintaining a very modest amount of free reserves. Eventually, he would consider the advisability of changing the percentage of vault cash permitted to be counted as required reserves.

Mr. Balderston said that he found himself in agreement with many of those who had spoken. While member banks had reduced their indebtedness to the Federal Reserve Banks, he noted that many banks were still borrowing Federal funds and therefore must feel under such constraint as debt imposed. He did not disregard the fact that the puzzling decline in the active money supply was offset, at least in part, by an increase in total liquid assets and an increase in the rate of turnover of deposits. However, he could not understand fully the reasons underlying the increase in turnover since the beginning of this year, because the enthusiasm to conserve cash had been with corporate treasurers for a long time. One might have expected that efficiency in the use of cash would improve gradually, but the developments since the turn of the year were difficult to understand.

It might be, Mr. Balderston said, that the legitimate financing needs of business were being met largely by internal funds, but he was not sure. Therefore, the central question to be studied over the next two or three weeks was whether the commercial banks were in such a tight position that legitimate borrowing was inhibited, and whether the failure of the active money supply to move upward was retarding the growth sought by the System. Since he did not know the answer to that question, he

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subscribed to what several others had said about maintaining the status quo until the visibility was more clear.

Chairman Martin said that perhaps he was getting a little too complacent. However, it was his feeling that Federal Reserve policy was behaving well at the present time. Give or take a few weeks, he thought that the System had been right on the ball in attuning itself to the economy and to the problem of the money supply. It is not possible to force the money supply, he noted. He had expressed on several occasions his lack of understanding about the money supply, and he still had that lack of understanding. Nevertheless, it seemed to him that the System was doing surprisingly well at the present. In essence, he would agree with Mr. Mills' comments, as modified by those of Mr. Deming, and he would likewise agree generally with all of the comments that had been made with respect to marking time, watchful waiting, and being cautious. He did not believe that the System could be too precise, much as that might be desired, for it is dealing with a pendulum that swings continually and this must be recognized.

Chairman Martin said he believed all the odds were on the side of supplying reserves to be as helpful as possible in increasing the money supply, without forcing. To use golf terminology, if the System forced too hard it would slice or get in the rough. The System must follow through in as easy and simple a way as possible and let market forces play themselves out. If that were done, one probably would be surprised at how well the money supply would develop in line with the economy.

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The month of July, the Chairman noted, would probably be the month of doldrums this year. There were signs that August might look a little better than had been anticipated some time ago. If there should be a fall revival, the System had acted at the right time, because it was not able to move in either direction. However, in view of the present overcapacity and underemployment, he felt that the System could afford to make errors on the side of ease during a period of this kind. All of the odds seemed to be with the System in moving in that direction, although he would not want to do so aggressively. As to vault cash and reserve requirements of central reserve city banks, it probably would be necessary to relate the problem to the needs for reserves. In the next couple of weeks, for example, it appeared that there was going to be a relatively easy period. Then there would be a tighter period, and the Treasury would be in the market at the end of June. There might be some opportunity for the Board to consider the reserve problem in the interim, but such consideration would have to be related to the problem of the Treasury.

Chairman Martin then said that the consensus at this meeting apparently favored marking time, with a clear majority in favor of making errors on the side of ease.

At this point the Chairman turned to Mr. Rouse with a request for comment on any problems the latter could foresee.

In comments made in response to this request, Mr. Rouse noted that in addition to the refunding of July 15 bills there would be a cash financing of approximately \$3 billion which would require additional

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reserves on the payment date. Then there would be the need for currency over the July 4 week end. The Treasury was due to pay out a lot of money on June 22; about one-half of the \$4 billion of tax anticipation bills presumably would be used to pay taxes and the balance would be paid out in cash. Therefore, there would be a need for investors to reinvest these funds, which probably would have some impact on the bill rate.

Mr. Rouse also made a supplemental report on the advance refunding of the 2-1/2s of 1961, to which he had referred earlier in the meeting. Based on reports from New York this morning and subscriptions reported by other Reserve Banks through yesterday, it appeared that subscriptions for the 3-3/4 per cent notes of 1964 amounted to about \$2.6 billion, and might even reach \$3-1/2 billion. On the other hand, New York subscriptions for the 3-7/8 per cent bonds of 1968 totaled only \$126 million and subscriptions at other Reserve Banks amounted to \$73 million through yesterday afternoon, making a total of only about \$200 million.

Chairman Martin commented that this report was more encouraging than the prospect last week.

The Chairman then stated that if there was no objection the policy directive would be renewed without change and the consensus would stand as he had indicated earlier.

Mr. Hayes commented that he would like to add a footnote on the consensus. The Chairman, he said, did not refer specifically to short-term interest rates. Listening to the discussion around the table, he (Mr. Hayes)

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noted that a large number of those who spoke had expressed concern about the rapid decline in market rates and about forcing them down any further.

Chairman Martin said that this comment was quite appropriate. He added that he did not know, however, whether anything could be done about the matter, and Mr. Hayes said that he did not know either.

Mr. Rouse commented on the 1-1/4 per cent rate differential in favor of United Kingdom bills, after forward exchange cover, that existed before the auction yesterday and said that money was beginning to move to that market.

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:

(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 by providing reserves needed for moderate bank 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

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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.

There had been distributed to the Committee copies of a memorandum from Mr. Rouse dated June 10, 1960, transmitting a memorandum of the same date from Mr. Larkin, Assistant Vice President of the Federal Reserve Bank of New York, concerning System Open Market Account transactions in one-year Treasury bills of July 15, 1960, under the authorization given by the Committee on April 12, 1960, and renewed at the two subsequent Committee meetings, to acquire up to \$150 million of such bills either by outright purchase or by swapping other bills. Mr. Larkin's memorandum showed that \$6.4 million of these bills had been acquired since the meeting on May 24, all by outright purchase, making a total of \$97.9 million acquired under the Committee authorization and total System holdings of \$111.3 million.

There being no comments or suggestions in the light of Mr. Larkin's report, Chairman Martin suggested that the authorization be renewed until the date of the next Committee meeting, at which time the matter would be discussed further.

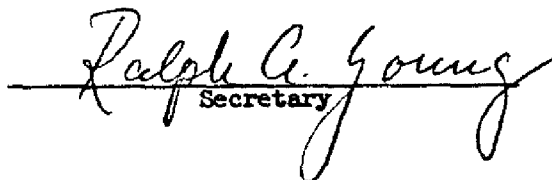
Thereupon, it was agreed to renew the April 12, 1960, authorization until the next meeting of the Committee, Mr. Robertson voting "no" insofar as the authorization related to "swap" transactions.

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After discussion, it was agreed that the next meeting of the Federal Open Market Committee would be held on Wednesday, July 6, 1960, rather than on Tuesday, July 5.

The meeting then adjourned.


Secretary