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 1, 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. 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. Hackley, General Counsel
Mr. Thomas, Economist
Messrs. Brandt, Eastburn, Marget, Noyes, Roosa, 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. Ellis, Hickman, Storrs, Baughman, Jones, and Einzig, Vice Presidents of the Federal Reserve Banks of Boston, Cleveland, Richmond, Chicago, St. Louis, and San Francisco, respectively

Messrs. Parsons and Coldwell, Directors of Research, Federal Reserve Banks of Minneapolis and Dallas, respectively
Mr. Stone, Manager, Securities Department, and Assistant Secretary, Federal Reserve Bank of New York

In the agenda for this meeting, the Secretary reported that advices had been received of the election by the Federal Reserve Banks of members and alternate members of the Federal Open Market Committee for a period of one year commencing March 1, 1960, and that it appeared the persons elected would be legally qualified to serve after they had executed their oaths of office. Prior to the meeting, each newly elected member and alternate member had executed the required oath of office. The members and alternate members were as follows:

Alfred Hayes, President of the Federal Reserve Bank of New York, with William F. Treiber, First Vice President of the Federal Reserve Bank of New York, as alternate member;

Karl R. Bopp, President of the Federal Reserve Bank of Philadelphia, with Hugh Leach, President of the Federal Reserve Bank of Richmond, as alternate member;

W. D. Fulton, President of the Federal Reserve Bank of Cleveland, with Carl E. Allen, President of the Federal Reserve Bank of Chicago, as alternate member;

Malcolm Bryan, President of the Federal Reserve Bank of Atlanta, with Watrous H. Irons, President of the Federal Reserve Bank of Dallas, as alternate member;

H. G. Leedy, President of the Federal Reserve Bank of Kansas City, with H. N. Mangels, President of the Federal Reserve Bank of San Francisco, as alternate member.

Upon motion duly made and seconded, and by unanimous vote, the following officers of the Federal Open Market Committee were elected to serve until the election of their successors at the first meeting of the Committee after February 28, 1961, with the understanding that in the event of the discontinuance of their official connection with the Board of Governors or with a Federal Reserve Bank, as the case might be, they would cease to have any official connection with the Federal Open Market Committee:

Wm. McC. Martin, Jr.	Chairman
Alfred Hayes	Vice Chairman
Ralph A. Young	Secretary
Merritt Sherman	Assistant Secretary
Kenneth A. Kenyon	Assistant Secretary
Howard H. Hackley	General Counsel
David B. Hexter	Assistant General Counsel
Woodlief Thomas	Economist
Harry Brandt, David P. Eastburn, L. Merle Hostetler, Arthur W. Marget, Guy E. Noyes, Robert V. Roosa, and Clarence W. Tow	Associate Economists

Upon motion duly made and seconded, and by unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System Open Market Account until the adjournment of the first meeting of the Committee after February 28, 1961.

Upon motion duly made and seconded, and by unanimous vote, the selection by the Board of Directors of the Federal Reserve Bank of New York of Robert G. Rouse as Manager of the System Open Market Account was approved.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on February 9, 1960, were approved.

Chairman Martin then referred to a memorandum distributed with the agenda under date of February 24, 1960, relating to the procedure authorized at the meeting on March 2, 1955, whereby, in addition to members and officers of the Committee and Reserve Bank Presidents not currently members of the Committee, minutes and other records could be made available to any other employee of the Board of Governors or of a Federal Reserve Bank with the approval of a member of the Committee or other Reserve Bank President, with notice to the Secretary. The most recent list of persons so authorized (exclusive of secretaries and records and duplicating personnel), as shown by the Secretary's records, was attached to the February 24 memorandum.

Chairman Martin inquired whether anyone wished to raise a question with respect to the existing procedure, and no questions were heard.

> Accordingly, it was agreed unanimously that no action should be taken at this time to amend the procedure authorized on March 2, 1955.

At Chairman Martin's suggestion, consideration was then given to the continuing authorizations of the Committee customarily reviewed at the first meeting in March of each year, and the actions as set forth subsequently in these minutes were taken concerning the matters that had been listed on the agenda for review at this meeting.

> It was agreed unanimously that no action should be taken at this time to amend or terminate the resolution of

> November 20, 1936, authorizing each Federal Reserve Bank to purchase and sell, at home and abroad, cable transfers, bills of exchange, and bankers' acceptances payable in foreign currencies, to the extent that such purchases and sales may be deemed to be necessary or advisable in connection with the establishment, maintenance, operation, increase, reduction, or discontinuance of accounts of Federal Reserve Banks in foreign countries.

A plan for allocation of securities in the System Open Market Account became effective September 1, 1953, pursuant to action of the Federal Open Market Committee at its meeting on June 11, 1953. This procedure had subsequently been reaffirmed by the Committee each year at the first meeting in March. Prior to this meeting, there had been distributed to the members of the Committee (1) a memorandum dated February 19, 1960, from Mr. Rouse, Manager of the System Open Market Account, and Mr. Farrell, Director of the Division of Bank Operations, Board of Governors, containing certain suggested changes in the existing procedure, and (2) a memorandum from Messrs. Rouse and Farrell dated February 23, 1960, submitting a pro forma reallocation of securities held in the System Account as of February 1, 1960.

Paragraph 7 of the statement of procedure adopted in 1953 read as follows:

> Profits and losses on the sale of securities from the Account shall be allocated on the basis of average daily participations in total holdings in the Account during the preceding five years. These ratios shall be computed as of the end of each month for the succeeding month.

The recommendation of Messrs. Rouse and Farrell was that paragraph 7 be changed to read as follows:

> Profits and losses on the sale of securities from the Account shall be allocated on the basis of each Bank's current holdings at the opening of business on the date of delivery of the securities sold.

Paragraph 3 of the statement of procedure adopted in 1953 read as follows:

> No allocation shall be made which would reduce the reserve ratio of a Bank below 35 per cent. If, because of the provisions of this paragraph, a Bank is unable to take its prorata share based on total assets, the amount which it is unable to take without reducing its reserve ratio below 35 per cent shall be allocated to the Bank or Banks having the highest reserve ratios in such a manner that the ratio of the Bank or Banks to which securities are reallocated will not be reduced below the ratio of any other Bank. Regardless of possible subsequent improvement in reserve ratios, no reversal of these adjustments shall take place pending the next general reallocation.

The recommendation of Messrs. Rouse and Farrell was that the first sentence of paragraph 3 be changed to read as follows:

> No allocation shall be made which would reduce the reserve ratio of a Bank as of the next to the last business day of March below 35 per cent.

Paragraph 5 of the statement of procedure adopted in 1953 read as follows:

> If a Bank's reserve ratio falls below 30 per cent on a Tuesday or the next to the last day of the month, sufficient of its holdings as of the close of business that day to raise its reserve ratio to 35 per cent shall be reallocated by an adjustment the following day, unless such day is a general reallocation date.

> Such securities shall be allocated to the Bank or Banks having the highest reserve ratios.(NOTE: This procedure does not contemplate partial reversal of these adjustments. However, full reversal of these adjustments will be made when a Bank's reserve position improves to the extent that the full amount of its participation allocated to other Banks under the provisions of this paragraph can be restored without reducing the Bank's reserve ratio below 35 per cent.)

The suggestion of Messrs. Rouse and Farrell was that the first sentence of paragraph 5 be changed to read as follows:

> If a Bank's reserve ratio falls below 30 per cent on the next to the last business day (as observed by the Agent Bank) of a statement week or month, sufficient of its holdings as of the close of business that day to raise its reserve ratio to 35 per cent shall be reallocated by an adjustment the following day, unless such day is a general reallocation date.

> Upon motion duly made and seconded, the procedure for allocation of securities in the System Open Market Account adopted pursuant to action of the Federal Open Market Committee on June 11, 1953, was approved unanimously, effective as of the April 1, 1960, reallocation, in a form reflecting incorporation of the three changes recommended in the memorandum from Messrs. Rouse and Farrell dated February 19, 1960, it being understood that the reallocation to be made as of April 1, 1960, would be based on the ratios of each Reserve Bank's daily average of total assets to the total for all Reserve Banks for the period March 1, 1959 through February 29, 1960.

Mr. Rouse suggested that the existing authorization for distribution of the weekly open market report prepared by the Federal Reserve Bank of New York be rephrased so as to refer to distribution of periodic reports prepared by the Federal Reserve Bank of New York for the Federal Open Market Committee, with the understanding that the authorization for distribution to certain officials of the Treasury Department would extend to the weekly open market reports only and not to other reports, including the annual reports or the reports submitted prior to each meeting of the Committee.

> There being no objection to the suggestion of Mr. Rouse, it was agreed unanimously to authorize distribution of periodic reports prepared by the Federal Reserve Bank of New York for the Federal Open Market Committee as follows:

1. The Members of the Board of Governors
2. The Presidents of the twelve Federal Reserve Banks
3. Officers of the Federal Open Market Committee

*4. The Secretary of the Treasury

*5. The Under Secretary of the Treasury

*6. The Assistant to the Secretary of the Treasury working on debt management problems

*7. The Fiscal Assistant Secretary of the Treasury

8. The Director of the Division of Bank Operations of the Board of Governors
9. The officer in charge of research at each of the Federal Reserve Banks not represented by its President on the Federal Open Market Committee
10. The alternate member of the Federal Open Market Committee from the Federal Reserve Bank of New York; the two Assistant Vice Presidents of the Federal Reserve Bank of New York working under the Manager of the System Account; the Managers of the Securities Department of the New York Bank; the Vice President in charge and the Assistant Vice President of the Research Department of the New York Bank; and the confidential files of the New York Bank as agent for the Federal Open Market Committee

* Weekly reports of open market operations only.

11. With the approval of a member of the Federal Open Market Committee or any other President of a Federal Reserve Bank, with notice to the Secretary, any other employee of the Board of Governors or of a Federal Reserve Bank.

Unanimous approval was given to continuation of the authorization to the Manager of the System Account to engage in transactions on a cash as well as a regular delivery basis.

With reference to the authorization to the Federal Reserve Bank of New York to enter into repurchase agreements with nonbank dealers in United States Government securities, Mr. Robertson commented that his views on the subject of repurchase agreements were well known because of statements he made previously from time to time. These views had not changed, and he continued to doubt the legality of the use of repurchase agreements. He did want to raise the question of ultra vires action since so many members of the Committee were convinced that the use of the repurchase agreement over a long period of time had legalized this mechanism for making loans to nonbank dealers. However, in view of the question of legality--the statutory right of the Open Market Committee to make loans as distinguished from purchasing securities--and the possibility that we can accomplish the System's objectives equally as well through the development of cash trading, he felt that we should minimize to the fullest possible extent the use of repurchase agreements and maximize cash trading, even though this might be less profitable and less palatable to the dealers. When it was concluded several years ago to continue the use of repurchase agreements notwithstanding the question of legality, it was understood, as he recalled it, that they would be used as sparingly as possible in achieving System objectives. In recent times, however, the tendency had been to use them frequently, and in his opinion excessively, to offset items that he doubted seriously needed to be offset. He felt that the Account should go back to a basis of using repurchase agreements as sparingly as possible, and then only for the purpose of taking care of the borrowing needs of the dealers in instances where they could not possibly get financing from other sources with which to carry securities and hence contribute to the smooth functioning of the Government securities market. In addition, he felt there should be an amendment of the authorization covering rates on repurchase agreements. In his opinion, the rate should be confined to the discount rate, rather than allowing, under some circumstances, the use of a rate less than the discount rate. This was not important today because we are not actually engaged in making loans (in the form of repurchase agreements) at rates less than the discount rate, but it could become important under other conditions. He felt that it was completely inequitable to permit nonbank dealers to borrow from the Federal Reserve System at rates below the rates prescribed for member banks, whether those banks were dealers or nondealers in Government securities.

Mr. Hayes said he had sensed that the use of repurchase agreements for meeting relatively short-term needs appealed strongly to many members of the Committee. It seemed to him that repurchase agreements had been considered a useful technique for combining the objectives of providing reserves temporarily, assisting dealer financing, and preventing any knots from developing there. On theoretical grounds and on the basis of past experience, it was a desirable technique that he would hate to see minimized.

Mr. Hayes recalled that there had been some discussion recently as to whether, because of the frequent use by banks of Government securities ranging to, say, two years in adjusting their reserve positions, the repurchase agreement authorization should be amended to permit agreements covering Government securities maturing beyond 15 months. Recognizing, however, that this question was closely related to the Committee's operating policies, he did not wish to raise the issue for action now.

Mr. Rouse said it had been found impracticable to use any rate other than the discount rate because of the factor mentioned by Mr. Robertson. To go above the discount rate would create a feeling on the part of the nonbank dealers that they were being imposed upon, while to go below the discount rate would mean that the bank dealers would feel imposed upon. As a practical matter, therefore, no rate other than the discount rate had been used for years, with perhaps one or two exceptions.

Mr. Robertson said he could find only one exception. However, he felt that in continuing the authority in its present form the Committee subjected itself to the criticism, for no purpose, of appearing to differentiate between banks and nonbank dealers.

Mr. Shepardson inquired whether he understood correctly that Mr. Rouse would not object to eliminating the authority for a rate other than the discount rate.

Mr. Rouse stated that he would not object.

Chairman Martin then said that he would not want to change the existing rate authorization without more discussion. He disagreed with Mr. Robertson's views on the use of repurchase agreements. In his opinion, they were a convenience to the System and of great importance in carrying out monetary policy. It was not just a matter of accommodating the dealers. The repurchase agreements were not only useful but important to monetary management, and he would not want to see their use minimized.

Mr. Szymczak commented that repurchase agreements were helpful to the Government securities market, and Chairman Martin added the comment that they were extremely helpful.

Chairman Martin repeated that he would not want to see the authorization changed to eliminate the right to use a rate lower than the discount rate under certain circumstances, if that appeared desirable.

Mr. Rouse commented that if rates on Treasury bills were low, it might be necessary to go below the discount rate in order to get out repurchase agreements to accomplish the objectives to which

Chairman Martin had referred. At least, that was the concept.

Mr. Mills then moved that the existing authorization with respect to repurchase agreements be continued. However, since Mr. Robertson had expressed himself for the record, the Committee would be alerted to study the problem as the year progressed.

The Chairman then called for any further comments, but none were heard.

> Thereupon, the motion of Mr. Mills having been seconded, the Committee approved, with Mr. Robertson dissenting, a renewal of the existing authorization to the Federal Reserve Bank of New York to enter into repurchase agreements with nonbank dealers in United States Government securities, subject to the following conditions:

1. Such agreements
   (a) In no event shall be at a rate below whichever is the lower of (1) the discount rate of the Federal Reserve Bank on eligible commercial paper, or (2) the average issuing rate on the most recent issue of three-month Treasury bills;
   (b) Shall be for periods of not to exceed 15 calendar days;
   (c) Shall cover only Government securities maturing within 15 months; and
   (d) Shall be used as a means of providing the money market with sufficient Federal Reserve funds to avoid undue strain on a day-to-day basis.
2. Reports of such transactions shall be included in the weekly report of open market operations which is sent to the members of the Federal Open Market Committee.
3. In the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, the securities thus acquired by the Federal Reserve Bank of New York shall be sold in the market or transferred to the System Open Market Account.

The Committee approved by unanimous vote a renewal of the authorization to the Federal Reserve Bank of New York (last renewed March 3, 1959) to purchase bankers' acceptances and to enter into repurchase agreements therefor. The authorization was as follows:

The Federal Open Market Committee hereby authorizes the Federal Reserve Bank of New York for its own account to buy from and sell to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, at market rates of discount, prime bankers' acceptances of the kinds designated in the regulations of the Federal Open Market Committee, at such times and in such amounts as may be advisable and consistent with the general credit policies and instructions of the Federal Open Market Committee, provided that the aggregate amount of such bankers' acceptances held at any one time by the Federal Reserve Bank of New York shall not exceed $75 million, and provided further that such holdings shall not be more than 10 per cent of the total of bankers' acceptances outstanding as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York.

The Federal Open Market Committee further authorizes the Federal Reserve Bank of New York to enter into repurchase agreements with nonbank dealers in bankers' acceptances covering prime bankers' acceptances of the kinds designated in the regulations of the Federal Open Market Committee, subject to the same conditions on which the Federal Reserve Bank of New York is now or may hereafter be authorized from time to time by the Federal Open Market Committee to enter into repurchase agreements covering United States Government securities, except that the maturities of such bankers' acceptances at the time of entering into such repurchase agreements shall not exceed six months, and except that in the event of the failure of the seller to repurchase, such acceptances shall continue to be held by the Federal Reserve Bank or shall be sold in the open market. Such repurchase agreements shall be at the same rate as that applicable, at the time of entering into such agreements, to repurchase agreements covering United States Government securities.

The Committee approved by unanimous vote the continuation without change of the existing authorization for fixing the rate charged on special short-term certificates of indebtedness purchased direct from the Treasury, pursuant to paragraph (2) of the Committee's policy directive to the Federal Reserve Bank of New York, at 1/4 of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchase.

The Committee reaffirmed by unanimous vote the authorization for the Chairman to appoint a Federal Reserve Bank as agent to operate the System Account temporarily in case the Federal Reserve Bank of New York is unable to function, such authorization having first been given on March 1, 1951, and having been renewed in March of each year since.

The following resolution to provide for the continued operation of the Federal Open Market Committee during an emergency was reaffirmed by unanimous vote:

In the event of war or defense emergency, if the Secretary or Assistant Secretary of the Federal Open Market Committee (or in the event of the unavailability of both of them, the Secretary or Acting Secretary of the Board of Governors of the Federal Reserve System) certifies that as a result of the emergency the available number of regular members and regular alternates of the Federal Open Market Committee is less than seven, all powers and functions of the said Committee shall be performed and exercised by, and authority to exercise such powers and functions is hereby delegated to, an Interim Committee, subject to the following terms and conditions:

Such Interim Committee shall consist of seven members, comprising each regular member and regular alternate of the Federal Open Market Committee then available, together with an additional number, sufficient to make a total of seven, which shall be made up in the following order of priority from those available: (1) each alternate at large (as defined below); (2) each President of a Federal Reserve Bank not then either a regular member or an alternate; (3) each First Vice

President of a Federal Reserve Bank, provided that (a) within each of the groups referred to in clauses (1), (2), and (3) priority of selection shall be in numerical order according to the numbers of the Federal Reserve Districts, (b) the President and the First Vice President of the same Federal Reserve Bank shall not serve at the same time as members of the Interim Committee, and (c) whenever a regular member or regular alternate of the Federal Open Market Committee or a person having a higher priority as indicated in clauses (1), (2), and (3) becomes available he shall become a member of the Interim Committee in the place of the person then on the Interim Committee having the lowest priority. The Interim Committee is hereby authorized to take action by majority vote of those present whenever one or more members thereof are present, provided that an affirmative vote for the action taken is cast by at least one regular member, regular alternate, or President of a Federal Reserve Bank. The delegation of authority and other procedures set forth above shall be effective only during such period or periods as there are available less than a total of seven regular members and regular alternates of the Federal Open Market Committee.

As used herein the term "regular member" refers to a member of the Federal Open Market Committee duly appointed or elected in accordance with existing law; the term "regular alternate" refers to an alternate of the Committee duly elected in accordance with existing law and serving in the absence of the regular member for whom he was elected; and the term "alternate at large" refers to any other duly elected alternate of the Committee at a time when the member in whose absence he was elected to serve is available.

Unanimous approval was also given to a renewal of the resolution set forth below authorizing certain actions by the Federal Reserve Banks during an emergency:

The Federal Open Market Committee hereby authorizes each Federal Reserve Bank to take any or all of the actions set forth below during war or defense emergency when such Federal Reserve Bank finds itself unable after reasonable efforts to be in communication with the Federal Open Market Committee (or with the Interim Committee acting in lieu of the Federal Open Market Committee) or when the Federal Open Market Committee (or such Interim Committee) is unable to function.

(1) Whenever it deems it necessary in the light of economic conditions and the general credit situation then

prevailing (after taking into account the possibility of providing necessary credit through advances secured by direct obligations of the United States under the last paragraph of section 13 of the Federal Reserve Act), such Federal Reserve Bank may purchase and sell obligations of the United States for its own account, either outright or under repurchase agreement, from and to banks, dealers, or other holders of such obligations.

(2) In case any prospective seller of obligations of the United States to a Federal Reserve Bank is unable to tender the actual securities representing such obligations because of conditions resulting from the emergency, such Federal Reserve Bank may, in its discretion and subject to such safeguards as it deems necessary, accept from such seller, in lieu of the actual securities, a "due bill" executed by the seller in form acceptable to such Federal Reserve Bank stating in substantial effect that the seller is the owner of the obligations which are the subject of the purchase, that ownership of such obligations is thereby transferred to the Federal Reserve Bank, and that the obligations themselves will be delivered to the Federal Reserve Bank as soon as possible.

(3) Such Federal Reserve Bank may in its discretion purchase special certificates of indebtedness directly from the United States in such amounts as may be needed to cover overdrafts in the general account of the Treasurer of the United States on the books of such Bank or for the temporary accommodation of the Treasury, but such Bank shall take all steps practicable at the time to insure as far as possible that the amount of obligations acquired directly from the United States and held by it, together with the amount of such obligations so acquired and held by all other Federal Reserve Banks, does not exceed $5 billion at any one time.

Authority to take the actions above set forth shall be effective only until such time as the Federal Reserve Bank is able again to establish communications with the Federal Open Market Committee (or the Interim Committee), and such Committee is then functioning.

By unanimous vote, the Committee reaffirmed the authorization given at the meeting on December 16, 1958, and continued at the meeting on March 3, 1959, providing for System personnel assigned to the Office of Civil and

Defense Mobilization Classified Location (High Point) on a rotating basis to have access to the resolutions (1) providing for continued operation of the Committee during an emergency and (2) authorizing certain actions by the Federal Reserve Banks during an emergency.

There was unanimous agreement that no action be taken to change the existing procedure, as called for by the resolution adopted June 21, 1939, requesting the Board of Governors to cause its examining force to furnish the Secretary of the Federal Open Market Committee a report of each examination of the System Open Market Account.

The next item on the agenda was a review of the continuing operating policies of the Federal Open Market Committee. However, Chairman Martin stated that he would like to defer consideration of this item until later in the meeting and proceed at this time to a review of open market operations since the meeting of the Committee on February 9, 1960. There being no disagreement, it was understood that this procedure would be followed.

Before this meeting there had been distributed to the members of the Committee a report of open market operations covering the period February 9 through February 24, 1960, and a supplementary report covering the period February 25 through February 29, 1960. Copies of both reports have been placed in the files of the Committee.

In supplementation of the written reports, Mr. Rouse made substantially the following comments:

Since the last meeting of the Committee, the statistical position of the money market experienced wide swings but the over-all atmosphere was on the whole much the same as in other recent periods: continued restraint without extremes other than for very short periods. Net borrowed reserves went from a peak of about $900 million on February 15 to a low of $47 million free reserves on February 19, but averaged about $400 million over the period. The peak was reached at a time when the money market was in the throes of settling for the Treasury's February refunding, which produced symptoms of extreme tightness requiring System repurchase agreements to ease the situation. Subsequently, banks gained reserves rapidly as float increased at a more than normal pace and other factors added to the bulge. A reduction in the System's holding of Treasury bills was needed to offset this trend. Toward the close of the period further repurchase agreements were made to temper renewed pressures on reserves, but none of the open market operations carried out during the period were large. Operations were for the most part done through bill redemptions, transactions with foreign accounts, and repurchase agreements. The distribution of reserves also swung sharply in favor of New York City banks at two points, adding to the peculiarities of the period. With the advent of the two-week reserve period for country banks, a new pattern seems to have emerged wherein the country banks shift sizable amounts of funds to their New York correspondent banks every other Tuesday and Wednesday, causing an oversupply of reserves in New York central reserve city banks which has tended to make the Federal funds market unusually easy on those Wednesdays when the New York banks must also settle their reserve positions.

Despite this easing, bill rates moved up substantially, reflecting mainly a cautious attitude toward the approaching March 15 tax date--91-day bill Treasury issuing rates rose from a low of about 3.56 per cent to more than 4.25 per cent in yesterday's auctions. Prices of longer-term issues improved throughout the list up to the middle of last week when the favorable vote of the House Ways and Means Committee on the compromise measure for revising the rate ceiling enhanced the prospects for advance refundings. This action brought a sharp drop in prices of the longest-term issues, with shorter issues continuing to improve moderately. Also, corporate and municipal bonds have been under some pressure as potential buyers have been reluctant to take up promptly a number of recent new issues in view of the House

> Committee action and the growing calendar of new flotations which they think may offer better investment opportunities.
>
> The approach of the mid-March tax and dividend dates and accompanying liquidity needs are now beginning to attract attention in the market. Although this is a factor contributing to the upward tilt of short-term rates, it does not seem to be a matter of concern and most of the major corporations have already provided for their needs in one way or another, largely through tax anticipation bills.

Mr. Mills said it appeared to him that the Desk had permitted a greater degree of restraint to exist during the reserve week ending tomorrow than was contemplated by the sense of the Committee at the February 9 meeting. Negative free reserves, at the $460 million level estimated by the Federal Reserve Bank of New York in the projection accompanying its supplementary report of Open Market operations to March 1, will have risen above the general level of the previous weeks and above what he had sensed to be the Committee's own choice.

With regard to the use of repurchase agreements, Mr. Mills inquired whether it was drawing too fine a line to get into the Account, as had been done twice in the past week or thereabouts, agreements with a maturity falling on the succeeding day from their origination. He thought that this could be confusing to the market and inquired whether a somewhat greater maturity leeway should not be provided.

Mr. Rouse replied that the swings during the past period had been enormous, and guesses had been pretty badly out of line on a number of days. Some days the Account was not planning on doing anything, and then repurchase agreements were written. If they were needed on a one-day basis, he thought the right thing had been done. Yesterday morning it was estimated that the average of net borrowed reserves for the week ending tomorrow would be around $417 million, but now it appeared that the average would be about $460 million. As far as the temper of the market was concerned, he felt that the degree of restraint had been fairly consistent throughout the period with the exception of February 15 and the following morning, when there was far more tightness in the market than the Committee wanted.

Mr. Allen commented that on several days Federal funds went begging.

Mr. Hayes noted that at one stage of the discussion at the February 9 meeting the Chairman had referred to "slight but not visible easing." This, he said, is about what has happened.

Mr. Mills said he could define his interpretation of the instruction to the Desk at the last meeting in this manner. If one looked at the table on recent and projected reserve changes that was distributed at the beginning of this meeting, it could be seen that negative free reserves for the several reserve weeks preceding the February 9 meeting had been averaging $400 million or lower. He would have interpreted the instruction to the Desk on February 9 as satisfaction with the results developed from that level of pressure.

Consequently, any increase in pressure above those general averages would have been contrary to the instructions.

Mr. Hayes said it seemed to him there was again the danger, to which he had referred from time to time, of giving too much emphasis to a single figure (net borrowed reserves). The feeling of ease in the market was greater than might have been associated with net borrowed reserves in the range of $400-$500 million.

Chairman Martin said he understood from Mr. Rouse's explanation that there had been no conscious effort on the part of the Desk to absorb reserves for the purpose of yielding a specific figure of net borrowed reserves.

Mr. Rouse replied that the Desk had tried to maintain the same feeling in the market that existed before the February 9 meeting. The problem went back to the question of net borrowed reserves, for net borrowed reserves of $400-$500 million in January and February were associated with a much easier situation than net borrowed reserves of $300 million in November and December. As far as the feel and temper of the market were concerned, there was an easier situation than may have been associated with the same level of net borrowed reserves in a previous period. As usual, the New York Bank had reviewed its notes of the February 9 meeting--and also the minutes, when they became available--to determine whether the Desk was on the right track. However, the February 9 meeting was not the easiest meeting to interpret.

Mr. Mills then said that with the greater degree of pressure that occurred last week, there was a reflection in the downward movement of the prices of securities in many sectors. There were extenuating circumstances, he granted, but he could not feel that those circumstances were conclusive in the movement of the Government securities market. He felt that the pressure placed on reserves equalled, or at least ranked with, other influences in the market.

Mr. Robertson noted that he had sometimes criticized the Desk because he had the feeling that the easiest thing to do is to move toward ease and that easing had been the over-all general tendency. In this instance, it might be that the net borrowed reserve figure had gone a little higher than some anticipated. However, this did not mean to him that the Desk had tried to tighten beyond the degree of restraint indicated by the discussion of the Committee. He was glad that once in a while operations produced a figure on the higher side, and he wished to commend the Desk.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period February 9 through February 29, 1960, were approved, ratified, and confirmed.

Mr. Noyes presented the following statement with respect to economic developments:

> In the visual presentations we made at the beginning of the year, we commented first that the attention of economic analysts was focused on the settlement of the

steel strike. In a subsequent revision we added that it had shifted to the President's Budget Message, and the final version reported that the spotlight had turned to the sharp decline in the stock market. If we were to do still another version, we might report that interest is now centered on developments in money and credit markets, and perhaps especially on the decline in the money supply. Whatever its true significance, there is no doubt that the persistent downward trend in the volume of demand deposits and currency adjusted, which started last summer and has continued beyond the period of depressed activity attributable to the steel strike, is an important factor in bearish sentiment. The prospect of a further decline in February will undoubtedly add to the attention focused on credit markets and monetary policy.

Another area being closely watched from all sides, which provides the basis for some misgivings as to the future, is that of inventories and new orders. The rapid rate of inventory accumulation which occurred in January, and appears to have continued in February, combined with the slight decline in new orders, suggests to some that we are mearing the end of the spurt of activity attributable to the resumption of steel production before any other expansive factor has emerged to take its place. These people will probably find some confirmation of their fears if the February index of industrial production shows little or no increase over January, as now appears likely.

In further support of their view, they can also point to the fact that seasonally adjusted department store sales, which declined from December to January, appear to have slipped a little further in February on the basis of the first three weeks' data and that, in fact, total retail sales were down from December to January, if one excludes auto dealers. While these declines are small and retail trade remains at a very high level, the edging off may gain some added significance from the fact that it occurred in a period when employment and production were rising to record levels and one might have expected some spurt in spending as strike-curtailed incomes were restored.

On the other hand, the last three weeks have also produced evidence that there is considerable confidence and basic strength in the situation. If the stock market has not shown much "oomph" on the upside, its stubborn resistance to general "across the board" declines has been impressive. Mr. Thomas will discuss money market developments in detail, but it is worth mentioning here that, whatever the technical factors, the recent firming could hardly have occurred in a period of general weakness.

Further evidence of underlying strength can be drawn from the February expansion of loans at weekly reporting banks. The $425 million increase in business loans in the first three weeks was larger than in the comparable period of any other year. While much of the increase was accounted for by metal fabricators, most categories showed more than seasonal increases or less than seasonal declines. Hence, the strength of loan demand can hardly be attributed solely to the reaccumulation of steel inventories and durable goods.

Commodity markets have shown neither dominant strength nor weakness--some prices moved up, others down. Taken altogether, industrial prices have been stable.

Without impinging unduly on Mr. Marget's extensive territory, perhaps I should mention that the near boom conditions developing in many countries abroad constitute an important element of strength in the domestic economic picture.

In summary, no convincing signs of basic weakness have emerged since the last meeting, but there is added support for the view that the moderate gap between capacity and current output is not closing rapidly. In these circumstances, it would appear that some adaptation of monetary constraint would be consistent with continuing price stability. At the same time, there is every reason to suppose that credit demands are sufficient to keep the proverbial string taut and that any supplement to the volume of loanable funds made available through bank credit expansion will be quickly absorbed. We may be, in fact, in one of the relatively rare periods when melioration of monetary policy would actually contribute to vigorous, healthy growth in the economy.

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

Probably the most important current financial development, from the standpoint of this group, is the indication of further greater-than-seasonal decline in the money supply. Demand deposits adjusted at city banks declined by a larger amount during February than in the same month of any other recent year except 1956. Country bank figures for the first half of the month failed to show the increase that occurred in the same period last year. It is possible that the seasonally adjusted money supply declined by as much as half a billion dollars in February to a level of as much as $300 million less than a year ago.

The reason for and significance of this decline is not easy to appraise. Bank loans, after declining sharply in January, turned up in February. Business loans at city banks, which had declined only moderately in January following the sharp December increase, increased substantially in February--a month that usually shows little change. Other categories of loans showed little change, except for a moderate increase in the "all other" category, which includes consumer loans. At the same time banks continued to reduce their holdings of U. S. securities. The net decline in total loans and investments was fairly substantial, though not as large as in February last year or in 1956 and 1955. Banks had to increase their borrowings to avoid further liquidation of investments, in the face of the loan increase and the deposit decline.

To some extent the decline in bank investments and deposits may reflect the further shifting of funds by holders from bank deposits to Government securities, attracted by the prevailing high interest rates. In the past three weeks, however, interest rates have risen, following the sharp drop in the early weeks of the year. At the same time demands on capital markets have not been heavy. Offerings of new securities by corporations and by State and local governments have been relatively light. It appears that new issues in the first quarter of the year will be smaller than in the same period of most other recent years. Offerings by finance companies have comprised a larger portion of total corporate issues than usual. Mortgage demands, on the other hand, have continued heavy, and there has been a considerable volume of short-term issues by Federal agencies.

Rates on three-month Treasury bills are again above the discount rate--as is normal for a situation in which banks are borrowing--but they are still much lower than in December and early January. The rate on six-month bills, which declined more sharply after early January, has risen less in the past three weeks than the three-month rate and is below levels that have generally prevailed since early September. Yields on two- to three-year issues have risen rather sharply, but issues in the four- to five-year area have shown greater strength than previously. Yields on longer bonds declined during most of February but have risen again since action by the House Ways and Means Committee last week on interest ceiling legislation. In general, the interest rate structure has been tending to flatten out over the past several months, with medium-term rates lower and the very short and very long-term rates higher relative to the average.

Stock prices have fluctuated fairly erratically at slightly above the low level reached early in February. Interest rates in other industrial countries have been tending to rise in response to economic activity and speculative developments, and official policies have moved further in the direction of restraint.

System operations have generally had the effect of maintaining pressure on banks. Reserves have been released by the decrease in required reserves, but various market factors and continued reduction in the System's portfolio have absorbed larger amounts of reserves. As a consequence, using preliminary estimates for this week, net borrowed reserves have increased somewhat in the past month on the basis of revised figures for a month ago. For the period as a whole, net borrowed reserves averaged less than $400 million, with borrowings averaging close to $800 million.

It appears from the course of events that a figure of this magnitude has kept the banks under pressure to liquidate securities in order to meet loan demands. The net result has evidently been the greater-than-seasonal decline in the money supply, as previously mentioned. Although it is possible that the public may be willing to reduce its cash holdings in order to invest in earning assets, it seems hardly necessary under existing conditions for System operations to be an inducement to credit liquidation by banks, with further increases in interest rates.

During the next three or four weeks money markets are likely to be under severe pressures to provide liquidity needed at this season. At similar periods in the past year the System has not acted to ease these pressures, with the result that interest rates have risen sharply and subsequently declined somewhat. Some pressures are desirable at such periods in order to attract funds to the market and avoid making Treasury bills the same as money, but it might be well for the System to be somewhat more liberal in supplying reserves at such times than has been customary in the past.

From a longer-run standpoint, in view of the absence of noticeable speculative tendencies or excessive credit expansion, it would be difficult to defend a continued decline in the money supply. More abundant reserves can be supplied in the weeks ahead either by maintaining a somewhat lower level of net borrowed reserves than has been the aim in the past--say around $300 million--or by operations that would supply currently somewhat more reserves than are needed to cover usual seasonal demands. In the short run there would be little difference in the conduct and impact of these two approaches. In the long run the difference would depend upon what the banks did with the additional reserves. Subsequent action could be guided accordingly.

Mr. Marget made substantially the following comments with respect to the balance of payments:

> One thing is clear, above all others, with respect to our balance-of-payments position at this juncture. It is bound to be affected, to a very considerable degree, by 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.
>
> Things are booming abroad, particularly in the industrialized countries. The inflationary pressures accompanying this boom abroad are strong enough to be of very real concern to the monetary authorities. The action by the Bank of England last Wednesday in relation to the London securities market was only the latest in a series of actions, by the monetary authorities of the industrialized countries, which provide a measure of their concern in this respect. And while this is going on abroad, our own internal position is such as to lead the authors of the current staff report on economic developments to use phrases such as "a questioning mood," "business prospects... being reappraised," "the strength of demand...undergoing fresh testing," and so on.
>
> This kind of cyclical constellation--a strong, inflation-threatening boom abroad and a moderation, at least, of boom tendencies here--is 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. And this is in fact what seems to be happening. December witnessed an increase in our exports which, to virtually all qualified observers, seemed surprisingly large; and the preliminary figures for January--some very misleading interpretations in the press to the contrary notwithstanding--show exports at a level which, if anything, was higher than that reached in December. Indeed, for two months in succession we have had exports at a rate close to the one projected for the full year 1960 by the National Foreign Trade Council balance-of-payments group at its meeting several weeks ago--that is,

about $18 billion, as against a realized level of exports for the years 1958 and 1959 of around $16 billion. And on the import side, one must say of the results suggested by our advance indicators for January that the drop in imports was so considerable as to be almost too good to be true, in the sense that it will almost certainly turn out to have been temporary, so far as its magnitude is concerned, though hopefully, not as to its direction.

As I suggested last time, there is no reason why one should always hasten to discount good news when it comes, particularly when the news is what one would have expected on the basis of what I have described as the changing cyclical constellation as between ourselves and our principal trading partners. But at least two further comments would seem to be appropriate.

The first comment is one of common caution. Even if we do reach and maintain the levels of exports and imports indicated by the projection of the National Foreign Trade Council balance-of-payments group to which I referred a moment ago, we shall still be running an over-all deficit of between $2-1/2 to $3 billion. This is better than the $3.4 billion deficit of 1958 and the $3.7 billion deficit of 1959, but it is still not good enough by far. And we shall not succeed in keeping the deficit even within these limits if there is any relaxation in our efforts, on all fronts, to keep ourselves sufficiently competitive to be able to profit from cyclical constellations of the kind from which we have been profiting recently.

The second comment is by way of clarification of the statement I have just made. It has reference to the policy actions that will have to be considered by this Committee if the cyclical constellation develops in a way that is being forecast in some quarters: a position of very strong boom abroad, with correspondingly high interest rates there, while our own internal economic situation moves into clear recession. The point I wish to make here is that it is not to be expected that in the name of "keeping sufficiently competitive" the monetary authority of a country evidencing a balance-of-payments deficit should deprive itself of all flexibility and all freedom of action regardless of what is happening to the domestic economic situation, and regardless of what its reserve position happens to be. These are considerations which this Committee will duly weigh when the time comes to do so. Here I should like to offer only two quotations from recent statements that bear on the subject.

One is from Governor Cobbold of the Bank of England. I need hardly remind you that the British reserve position can only be described as fragile, in comparison with our own massive reserve position; and yet this is the statement that Governor Cobbold made on February 12 of this year:

> "...With the much greater stability of the exchanges in the past year or two, and with increasing freedom of trade and currency movements, comparative interest rates have become somewhat more decisive, both in shifting short-term investment from one country to another, and perhaps even more important, in making borrowing cheaper in one market than another.
>
> "It seems to me that we should learn to live with movements of this sort without taking them too tragically. Of course it becomes inconvenient if interest rates are too far out of line for too long, and this must always be a consideration in the mind of every monetary authority. But I do not think it should be the dominant consideration, or that we should be in too much of a hurry to 'keep up with the Joneses' in raising or lowering interest rates. Where there is a conflict between these 'overseas' arguments and the 'domestic' arguments for interest rate changes, I would rather see some resort to use of reserves than a slavish following of interest rate movements made by other countries for their own reasons."

(I think it is worth adding, at the same time, Governor Cobbold's next sentence: "On January 21, however [the date Bank rate was raised to 5 per cent], there was no such conflict, and both 'domestic' and 'overseas' arguments pointed the same way.")

The other quotation is from a letter which the Chairman sent on February 19 last to Senator Javits. This was in response to a letter from the Senator which asked the Chairman to comment on certain statements that had appeared in a much-discussed article in the New York Times, suggesting that a very serious conflict existed as between certain goals of economic policy, and in particular that because of our balance-of-payments position "a U. S. recession in the near future would be allowed to drift into severe unemployment because the Government would be afraid to act vigorously against it." "This," said the Times article, "would come about because anti-recession action--chiefly an aggressive easy-money policy--could bring on the feared run on gold. This country's freedom of action domestically will be limited by the fact that the dollar is a reserve world currency." To this part of Senator Javits' letter, the Chairman replied as follows:

> "The international reserve position of the United States is comfortable enough to permit 'freedom of action' in case of a recession. The balance of payments situation in the next recession is not now predictable, because it will depend to a large extent on conditions then existing abroad. A temporary enlargement of the payments deficit, should it occur, need not be a permanent setback to the process of adjustment.

> "What is needed today is not so much to discuss ways to meet a hypothetical dilemma as to see to it that we continue to follow policies designed to ensure the domestic and international financial equilibrium of the United States, so that the dilemma will not arise."

Mr. Hayes presented the following statement of his views with respect to the business situation and credit policy:

> While we may face difficult problems today in the matter of determining operating procedures and the form of the Committee's instructions, it seems to me that our decision as to credit policy itself should be relatively easy, since I can see no basis either in the business situation or in credit conditions for any substantial policy change.
>
> Such pessimistic views as have been expressed by some businessmen and business economists seem to reflect disappointment over the actual course of events as contrasted with earlier exuberant expectations; but there is no evidence to suggest that 1960 will be other than a prosperous year, with an upward trend in the economy through most of the year. Consumer spending will be of key importance for the strength and duration of the expansion. So far retail trade figures are very satisfactory but not spectacular. Construction prospects continue good, aided by a somewhat increased availability of mortgage funds and a leveling of mortgage costs. Revised data now show that inventory accumulation in 1959 exceeded inventory liquidation in 1958--and this suggests that further accumulation may proceed at a more moderate rate than was expected at the end of the steel strike, even though inventory-sales ratios are still low. Plant and equipment outlays should be an area of gradually increasing demand, but there is little evidence of any widespread upward revision of such spending plans. Moderation in inventory building and phasing out of spending for fixed capital should result in stretching out the boom and moderating any subsequent cyclical downswing.
>
> Price developments also have been rather satisfactory. The decline in the stock market may to some extent reflect the emergence of some less fatalistic views with respect to creeping inflation. Consumer and wholesale price indices have been generally stable, and sensitive prices have tended to decline.
>
> As for bank credit, the outstanding feature on the loan side in the first three weeks of February was the strength of business loans, which rose more than seasonally in a variety of sectors, as compared with a January performance roughly in line with the seasonal pattern. Bank liquidity has been further reduced, with the loan-deposit ratio in New York back to the 69 per cent figure

of November and December and outside of New York at a new high for recent years of over 59 per cent. In view of this sustained pressure on liquidity positions, the January-February drop in interest rates may prove to have been only a temporary respite. Much will depend on the pattern of corporate financing. Aggregate credit demands on the capital market from corporations have remained surprisingly light so far in 1960, but this picture could of course change quite rapidly. Because of the distribution of reserves and an unexpectedly large bulge in float, the feel of the money and credit markets has recently been comfortable in spite of the squeeze on liquidity.

In my view the aim of open market operations over the next three weeks should be to keep about the degree of pressure on the money and short-term securities markets as now exists, which we should bear in mind is rather less than the pressure which would ordinarily be associated with net borrowed reserves of $400 million or more. I would hope the Manager would be given ample latitude to deal liberally with the pressures and churning usually encountered over the middle of March. If for this purpose net borrowed reserves are permitted to average well below the $400-500 million level I think no harm would be done, since I would look favorably on a tendency for the money supply to resume some moderate growth in the next month or two. Repurchase agreements might prove to be the best vehicle for releasing funds needed at the mid-March period.

At this point I should like to make just a brief observation on the Committee's current efforts to find a more "objective" and "quantitative" guide for the Manager's use. I can well understand the reasons that have prompted this search; and certainly it has been useful to concentrate our attention on some of the problems involved and on some of the available statistical data on total reserves and the money supply. But I think the distinction needs to be kept in mind between the kind of data to which the Committee can and does give close attention at each meeting and the kind of data that might provide a practical working guide to the Manager for day-to-day operations. On the latter score, I believe that our usual instructions couched in terms of "the same degree of restraint" or "more" or "less" are sufficiently precise and make it possible for the Manager to react to changing developments flexibly and in such a way as to carry out fully the spirit of the Committee's instructions. As we have often noted, our system of reports, including the daily conference call, is so extensive that each member has ample opportunity to inform the Manager if he sees any deviation from the Committee's instructions. I think we would be giving up a highly advantageous technique, developed over many years, if we were to attempt to couch the instructions in some very exact mathematical terms.

Of all the tested statistical guides we have available, net borrowed reserves are still probably the best, but this guide is certainly a long way from being sufficient by itself. In the coming period, for example, I should think that the volume of borrowing should not rise much above three-quarters of a billion dollars, even over the tax date, and that if it were to become larger, the Account should supply reserves unless (as sometimes happens) the money market should be easy or quite comfortable at the time, with Federal funds occasionally trading below the discount rate.

Although most of March will represent a so-called "free period" from the standpoint of Treasury operations, I can see no basis whatever for considering a discount rate change at this time.

As for the directive, I think that we should adhere to the practice of changing it relatively infrequently--say two or three times a year--with the understanding that within a given directive there is room for different shadings in the degree of ease or restraint, and that the instructions to the Manager embodied in the minutes (and reported in the policy record) should continue to reflect these minor variations. On the other hand, even though we decide, as I think we should, not to change our basic credit policy at today's meeting, I would like to see us take advantage of the annual meeting to effect what I believe would be an improvement in the directive, i.e., the separation of clause (b) into two parts: a new clause (b) to embody objectives to which we would wish to adhere on a continuing basis, throughout the business cycle; and a new clause (c) which would be reserved to take account of changing cyclical economic conditions and policy purposes but would at the same time be sufficiently broad so as not to require frequent changes for mere variations in shading. The present clause (c) would be relabeled (d). Thus, the new directive would include the following clauses:

(a) to relating the supply of funds in the market to needs of commerce and business,

(b) to fostering sustainable economic growth and expanding employment opportunities and the conditions of reasonable price stability conducive to both,

(c) to maintaining a policy of moderate credit restraint that will support current expansionary developments in the economy while guarding against a renewed outbreak of inflationary pressures, and

(d) to the practical administration of the Account ....

Mr. Erickson said that construction contract awards in the First District in January were 3 per cent under the previous year, slightly less than the national average. Public works and utilities were down 68 per cent, reflecting one large contract in January 1959, but nonresidential contracts were up 61 per cent from January a year ago. Residential contracts were up 17 per cent from January 1959 and January 1959 was 32 per cent ahead of January 1958. The number of residential units in January was up 25 per cent, which might reflect open weather in parts of the area and represent a borrowing from the spring season. For the first seven weeks of this year, department store sales were 4 per cent ahead of last year. Sales at downtown stores were also up 4 per cent, whereas in 1959 their sales were equivalent to 1958, which might suggest that the trend to suburban stores had turned.

Mr. Erickson also said that in the first eight weeks of this year bank loans were down $83 million, compared with an increase of $3 million in the same period last year. District banks were net purchasers of Federal funds for the past three weeks, but they had not used the discount window more than before. Borrowings averaged between $20 and $25 million. The January survey of 81 mutual savings banks, holding about 56 per cent of total savings deposits, showed that the deposit increase in January was 4.8 per cent, the lowest rate of gain in over two years. Withdrawals in January, at the rate of 12 per cent, probably included withdrawals to purchase one-year bills, which were popular with some people in the district. The savings banks' mortgage position was up 11 per cent from a year ago; 67 per cent of their deposits were in real estate mortgages. A representative of one of the largest banks said recently that he estimated his bank would be able to loan only one-half as much this year as last year due to the decline in deposit growth and also due to the fact that in 1959 the amount the savings banks could put in mortgages in Massachusetts was increased and advantage was taken of that opportunity last year. The banks were getting about a 12-1/2 per cent payoff on present mortgages, however, and that would serve as a basis for further extensions of mortgage credit.

Mr. Erickson said that for the next three weeks he would continue a policy of watchful waiting. He foresaw that there might be a difficult time over the 15th of March. While he would not favor changing the discount rate at this time, he would change the directive. In the latter connection, he was rather intrigued by parts of the proposal of Mr. Hayes. Pending thorough study of that proposal, however, he would just as soon keep the present form of directive and adopt language for clause (b) along the lines suggested by Mr. Balderston at the February 9 meeting, which would provide for operations with a view to fostering sustainable growth in economic activity and employment while guarding against excessive credit expansion. As to open market operations for the next three weeks, he would keep the same degree of restraint. He would leave it to the Manager in this period to conduct operations so as to maintain that degree of restraint.

Mr. Irons said that the Eleventh District continued to enjoy the generally high level of economic activity that had characterized the area for the past several weeks. However, there were some sectors of activity within the total that might be said to be less vigorous. These included petroleum, with a tendency to build up excessive stocks, and construction, which was off a little more than seasonally. There was the continuing situation in regard to the defense plants, and employment in the plants, and there was the usual uncertainty at this season of the year regarding agriculture, especially in view of unseasonal weather recently.

Turning to the financial picture, Mr. Irons said that the large banks, especially in Dallas, showed a tight credit position and a low level of liquidity. They had been showing only a moderate decline in investments, possibly because they were out of bills and other short-term investments and were reluctant to sell other issues. There was a substantially larger deposit decline. There had been an increasing number of reports of deposits being used for the purchase of short-term Government securities and of country banks drawing on their balances with city correspondents. Reports were general enough to suggest the likelihood that money might be shifting out of the district, at least temporarily. While there had been fairly strong requests for borrowing from the Reserve Bank, in the latest week borrowings declined somewhat. This might have been attributable to a bit of easing in the money markets and the fact that on some days Federal funds were selling below the discount rate; it might also reflect the fact that the Reserve Bank had held discussions with those member banks that had been borrowing in substantial amounts and rather continuously.

In summary, Mr. Irons said, the psychology of businessmen and bankers in the district was less strongly optimistic. They were less inflation minded, not pessimistic but not as optimistic as six or eight weeks ago.

Turning to the national picture, Mr. Irons referred to the shades of uncertainty at the present time. The picture was not what had been expected. Looking just at the 15-day period ahead, he came out in his thinking along the following lines. Instead of continuing the existing degree of restraint but making any inadvertent errors on the side of ease, he would favor a conscious but moderate lessening of restraint between now and the next meeting of the Committee, having in mind the economic situation and the seasonal demand for funds which was tied into the tax payment period. That lessening of restraint might be reflected in relationships such as average net borrowed reserves dropping perhaps to the range from $275 to $325 million. The Federal funds rate would be under the discount rate at least part of the time, and the seasonal upward pressure on short-term rates would be largely met in such a way as to lessen that pressure.

He would look on this period as a sort of testing period to see what might happen under these circumstances with a little lessening of restraint.

Mr. Irons noted that the position he had expressed would argue for a change in the directive, but he saw no reason to change the discount rate at this time. Language for the directive along the following lines would be illustrative of his thinking:

> The Committee instructs the Account to engage in operations in the open market so as to lessen restraint and pressure on bank reserves moderately, to avoid seasonal credit factors distorting the pattern of short-term rates, and to test the market's response to a moderate lessening of restraint by maintaining average net borrowed reserves at a lower level--perhaps in the range of $275-$325 million, and by influencing market conditions so that the Federal funds rate will tend to fluctuate moderately below the discount rate and other short-term rates will tend to move within reasonable range of the discount rate. The Account is expected to assume sufficient leeway to meet day-to-day situations of unanticipated tightness or ease, when necessary, as reflected by the tone and feel of the market.

With further reference to the problem of the directive, Mr. Irons said that he had been thinking along somewhat the same lines as Mr. Hayes. However, he would regard a statement of the kind suggested by Mr. Hayes as setting forth objectives, more than a directive to the Desk. The Committee had continually as objectives the relating of the supply of funds in the market to the needs of commerce and business and the fostering of sustainable economic growth and employment opportunities. In these respects, the Committee would be setting forth something in the nature of an objective that would seldom be changed. Within that framework he would issue at each meeting a detailed and specific directive such as he had suggested. Realizing that a large group of people around a table could hardly develop such a directive, he would suggest a procedure under which, after the go-around, the Chairman would summarize and present a consensus on which the members would agree. Then the Secretary of the Committee, working with the Manager of the Account, would draft the specific directive on the afternoon of the meeting. This would be subject to the approval and confirmation of the Chairman of the Committee and would be the directive for the next three weeks, subject to ratification by the Committee. Anyone objecting could bring the matter up in the next three weeks, but it would take a majority of the Committee to subscribe to the difference. He felt that in practice the differences would be so minor that there would be no problem. The procedure would meet an administrative problem, and at each meeting the Manager of the Account would be given a specific directive.

Mr. Mangels said that Twelfth District activity continued at satisfactory levels. At this time of year, a decline in employment figures would normally be expected, but, except for defense-related areas, there was an employment increase in January almost across the board. Although employment at aircraft plants continued to decline, unemployment in the Pacific Coast States in January was 4.1 per cent, about the same as in July 1957 and .3 per cent below December 1959.

Construction contracts awarded in January were down 16 per cent from a year ago, mostly in the residential field, reflecting adverse weather and mortgage market conditions. Lumber production and new orders improved in the first half of February, partly as a result of increased exports to Great Britain and Commonwealth countries. Department stores sales in January and into February showed increases against year-ago figures, but automobile registrations in California showed a sharp drop in early February. Grapefruit growers were netting 80 cents a box in California and 50 cents in Arizona, as compared with $3.50 last year. However, prices for winter vegetables were up.

On the financial side, Mr. Mangels said that loans of reporting banks increased only $23 million in the three weeks ending February 17 despite two loans of $28 million and $5 million, respectively. Purchases and sales of Federal funds were about even during the past week, while for the coming week district banks expected to buy about $250 million net. In the three weeks ended February 17, the banks sold about $220 million of securities from their portfolios. Borrowings from the Reserve Bank continued relatively high, although not as high as they had been. Both time and demand deposits, particularly the former, continued to show a decline. During January, share accounts at savings and loan associations in California increased $322 million. One large San Francisco bank reported that some public treasurers were running off bill holdings.

Mr. Mangels said he continued to sense fairly general evidence of tightness. With the March 15 tax period approaching, there would be some further demands for credit. That would likely have an effect on short-term rates, which in turn might cause some further speculation regarding the possibility of increases in the discount rate and the prime rate. While the economy was operating at a satisfactory level, activity was not so strong as to justify a change in the discount rate. With regard to operations of the Account during the forthcoming period, he would favor net borrowed reserves of around $300 million, and he would not be unhappy if net borrowed reserves fell to $250 or $275 million. As to the directive, he would go along with language such as suggested by Mr. Balderston at the February 9 meeting. While he thought that Mr. Hayes and Mr. Irons had made good points, their suggestions would require more time for study than could be given to them today.

Mr. Deming reported that total Ninth District employment in January was .5 per cent ahead of a year earlier, in contrast to a national gain of 1.6 per cent. In part, the lesser gain in the district reflected a sharper than usual seasonal drop in farm employment. Nonagricultural employment was at a record high for January, but seasonally adjusted manufacturing employment had not quite reached the pre-strike level of last July. With the growth of the labor force, unemployment was still fairly high even though it had declined from year-ago levels. In the Twin Cities the unemployment rate in January was 5.3 per cent, in contrast to 6.3 per cent a year earlier. Employment was expected to rise over the next few months, but the increase forecast between now and May was less than the usual seasonal amount.

Continuing, Mr. Deming said that Anaconda had settled its copper strike in Montana after a long fight. It was reported that the settlement was more favorable than those negotiated earlier in some other areas, costing perhaps about two-thirds as much over the next two and one-half years as in other cases. New techniques in mining, stimulated by rising labor costs, had sharply reduced copper industry employment in Montana over the past three years. Even with production holding at about the same level, employment, when everyone got back to work in the mines, smelters, and refineries, apparently would be about 8,500, in contrast to 13,500 three years ago.

The Minnesota personal income figure for January was up slightly from December on a seasonally adjusted basis, with the gain fractionally smaller than that registered for the country. Relative to a year ago, the gain was 2.3 per cent, about a third that for the nation. This reflected in part the farm income situation, but that was not the whole story; the district simply had not recovered fully from the steel strike lows. Expectations of businessmen seemed to have become a little less fulsome than was the case six or eight weeks ago, although there seemed to be no feeling that the economy was turning down or even leveling off. He would not even characterize the current feeling as "cautious" optimism; it might be described, perhaps, as "realistic" appraisal, and recognition that this year might be better than any previous year, without being quite as good as expected earlier. Expectations of the general public seemed quite optimistic, as indicated by the results of a Statewide consumer outlook survey made by a Minneapolis newspaper in the second half of January.

Mr. Deming said that the points he had mentioned for the district, taken in conjunction with those made for the nation as a whole, including the existence of excess capacity and relatively high unemployment, seemed to add up to an economic picture that caused one to be less concerned about the development of unsustainable expansion and inflation, at least in the short run. He agreed with the view that the Committee might well change the directive at this time and that it might follow a somewhat more liberal policy in supplying reserves. He liked the phrasing Mr. Irons had used: conscious lessening of restraint. He saw no need to change the discount rate at this time.

As to the wording of the directive, he would be agreeable to language along the lines that Mr. Mills had been suggesting recently. This would provide for fostering sustainable economic growth and expanding employment opportunities while continuing to be alert to the resumption of inflationary credit expansion. With reference to changes in the form of the directive such as had been suggested by Messrs. Hayes and Irons, Mr. Deming indicated that he was sympathetic but felt that the suggestions needed more study.

Mr. Allen said that, all things considered, he regarded the business situation as satisfactory at this time. Business psychology was less ebullient in some respects, a desirable development. It seemed clear that sales of consumer durables, particularly automobiles, were not meeting earlier expectations. Inventories of new cars would probably cross the million mark today or tomorrow, and production would doubtless be geared to sales from here on. A psychologically depressing factor in Detroit was that the car manufacturers were finding their break-even points higher as the lower-profit compact cars became a higher percentage of output. However, the basic trends in the economy, as evidenced by income and employment, remained strong. In January, personal income increased from December nationally and was estimated to be 6.6 per cent above the same month of 1959, a gain larger than the 5.9 per cent rise reported for the entire year 1959 over 1958. It was also worth-noting that the January increase was exclusive of the rise in the Social Security tax from 2.5 to 3 per cent. Also, individuals whose cumulative wage and salary income exceeded $4,800 during 1959 began to pay the Social Security tax once again in January 1960. Thus, the rise in personal income was in fact greater than indicated by the foregoing figures.

Mr. Allen noted that employment continued to rise on a seasonally adjusted basis through January, in the Seventh District as well as nationally. Two of the 16 largest centers in the nation were classified as of January as having less than 3 per cent current and prospective unemployment. One of them, Milwaukee, is important in the production of capital goods, and it appeared that activity in the capital goods sector would continue to rise. Home building was showing more strength than anticipated. Producers of various textiles, carpets, tires, farm machinery, and construction machinery had raised prices from 1 to 5 per cent since the start of the year. A National Industrial Conference Board survey of consumer buying intentions, released last week, showed that individuals were highly confident and planned to increase their purchases of houses, appliances, and automobiles very substantially over year-ago levels. The head of a factory-locating service reported that his firm's backlog of work was the largest in history; from past experience, he estimated that capital expenditures nationally would be about 15 per cent higher this year than last.

Mr. Allen commented that banking statistics showed substantial credit demand in February. Business loans for all reporting banks in the country rose $427 million in the three weeks ended February 17, several times the increase in the like period a year ago, and the Seventh District picture was the same, with most of the loan growth in the Chicago money market banks.

Summarizing, Mr. Allen said he thought that economists and businessmen in the Seventh District did not interpret recent developments as marking a general letdown in the economy. Instead, they had lowered their sights moderately from the extravagant ideas of a few months ago. Business and investor psychology seemed to be the major factor contributing to the uncertainty in the short-term outlook. He doubted that any further worsening in this factor was in prospect, and he believed that the best policy was to wait and see. Therefore, he felt that monetary policy was, and had been in recent months, about as close to right as could be expected. The decision of a few weeks ago to refrain from raising the discount rate had proved to be correct, at least thus far, and that move could still be made whenever conditions might justify. Based on his view of the business picture, he would do nothing at this time; that is, he would not change either the directive or the discount rate, and he would not seek to vary the degree of restraint that had been achieved.

As to the directive, Mr. Allen said that he would defer further comments until the discussion of operating policies, because it was his view that the operating policies and the directive could well be combined in one statement, at least as a transitional move.

Mr. Leedy said there had been no changes in the Tenth District since the February 9 meeting that seemed worthy of recording in detail. The trends he referred to at that time had continued. Based on preliminary reports, employment in the principal centers, with one exception, continued favorable. Business loans continued to grow, and borrowings from the Reserve Bank were still at a high level. Department store sales since the first of the year had not been at as high a level as in the rest of the country, but some of that probably was due to severe winter weather.

Mr. Leedy said he subscribed to the view that in the period immediately ahead, when there would be some need for additional reserves, they should be supplied. He would attempt to feed in a modest supply of reserves without undertaking any sharp change in the existing level. While no one was completely satisfied with net borrowed reserves as a yardstick, apparently it was necessary to make some use of it, and he would not be concerned if the level should drop down to around $300 million. He would not want the Federal funds rate to get far below the discount rate and remain there long, but he would feel his way in the direction of feeding some modest additional amount of reserves into the banking system.

Mr. Leedy said that, although he would not suggest doing it now, he felt that consideration should be given to the elimination of a directive of the kind ordinarily approved at each meeting. In his opinion, such a directive contained a great deal that was in the area of Committee responsibilities and little in the way of exact guidance for the period until the next meeting. While he would have no strong objection to a format such as Mr. Hayes had suggested, he had the feeling that little purpose was served by repeating every time the things that were the Committee's continuing responsibilities. For the time being, however, he would make no change in the format of the directive. For clause (b), he would adopt language along the lines that Mr. Mills or Mr. Balderston had suggested, or perhaps some combination, that would provide for operations with a view to fostering sustainable economic growth and expanding employment opportunities and to maintaining a policy of modest credit restraint. He would not suggest that there be any change in the discount rate at this time.

Mr. Leach said recent and current reports indicated that Fifth District business activity was following fairly generally the pattern of national developments. The substantial expansion in January had been followed by some moderation of earlier estimates of the upsurge in coming months. Reports from the textile industry were representative of the change in sentiment. In January, order backlogs in the industry were very large and man-hours worked increased; these and other indicators gave no signs of current weakness. In the past couple of weeks, however, there was some talk that the textile boom may have topped out. Loans of district weekly reporting banks increased more than seasonally during the past two weeks, but officers of large member banks were virtually unanimous in saying that while loan demand had been strong, it had not been as strong as they had forecast around the first of the year.

Continuing, Mr. Leach said that he would like to make a few comments with respect to the general procedure of the Committee and its directive to the New York Bank, and advance what he hoped would be a helpful suggestion. As he sensed the situation, there had been some difference of opinion as to what extent the directive was intended to serve as a statement for the policy record and as to what extent it was intended to serve as a real directive to the New York Bank. Also, he was not convinced that the procedure now followed, as outlined in the memorandum of October 9, 1959, from Chairman Martin to the Committee, offered the best solution of the voting problem. Therefore, he wished to offer for consideration a three-part program which would follow the go-around.

The program would involve, first, the adoption of a short statement of general policy which would correspond in general to what in the past had been included in clause (b) of the directive. There would then be a recorded vote of members of the Committee on this general policy, which would be treated in the policy record as general policy and not as a directive. Ordinarily, he would expect this general policy to be renewed until there was a change in general economic conditions. There might be, say, four or five changes a year, as there were in clause (b) of the directive in 1956, 1957, and 1958. His recommendation for general policy at this particular meeting would be the language suggested at the February 9 meeting for clause (b) of the directive, which would provide for "fostering sustainable growth in economic activity and employment while guarding against excessive credit expansion." In passing, he felt that the policy record would have been better if the directive had not remained unchanged since May 1959. The directive might have at least shown that the Committee was aware of the uncertainties created by the steel strike. Some might consider this of little importance, but he did not agree. Outside appraisal of Committee actions during the last nine months would be based to some extent on the published directive.

Mr. Leach next suggested that, having adopted a general policy, it would then be in order for the Committee to get more specific; that is, to indicate whether the Committee desired for the ensuing three weeks the same degree of restraint, more restraint, or less restraint. The Chairman would present the consensus as he saw it, perhaps using such expressions as a little less or a little more restraint, resolving doubts, etc. If the Committee agreed that the Chairman had accurately expressed the consensus, the Chairman would give members of the Committee an opportunity to record dissenting votes.

At this point, Mr. Leach said that his recommendation for specific policy at this particular meeting would be a little less restraint than had been maintained. This would recognize the change that had occurred in the economic outlook and would permit more growth in the money supply. He would not be concerned if developments in the near future should cause the Committee to tighten again, for to him that would be evidence of flexibility rather than admission of a mistake.

Under his proposed program, Mr. Leach said, the next item in order of consideration would be the directive to the New York Bank, which would be treated as an internal matter and would not be referred to in the policy record. The directive could be divided into a continuing directive embodying standard instructions and a current directive which would contain both the general policy and the more specific instructions to which he had referred. In other words, it would embody what had been agreed upon as to general policy and then cover specific policy for the next three weeks. On the latter, his recommendation at this time would be for a little less restraint.

With regard to the question of improving instructions to the Account Management, Mr. Leach said he was sympathetic to any and all efforts to develop better measures for expressing the Committee's intentions. No one would welcome more the development of a single tangible indicator to replace the "feel of the market" approach. So far, he had found none that seemed practicable for day-to-day operations, but he would favor further study of the suggestions that had been made, and any others that might be made. In the meanwhile, he hoped the Committee would substitute for "feel of the market" some other expression that would convey the idea of careful analysis of the situation rather than a "feel" for it. The best that occurred to him at the moment was "giving consideration to all market factors," but he hoped someone else could suggest a better term. Another expression subject to misinterpretation outside the System was "give the Manager of the Account latitude." Of necessity, the Manager must have latitude to exercise judgment in the day-to-day execution of the Committee's instructions. This was not to deny, of course, that the Manager's job was more difficult at some times than at others.

In conclusion, Mr. Leach said that he would not favor a change in the discount rate at this time.

Mr. Mills said that movements in the economy since the February 9 meeting had served further to strengthen his belief that the System's credit policy had been, and continued to be, too severely restrictive. Moreover, the very sharp and continuing contraction in the money supply was a clear warning that if the System was to make a contribution to economic growth and stability, it was imperative that some relief be given to the reserve positions of the commercial banks, which had been subjected to heavy pressure going back over many months. Accordingly, the System might be well advised to move toward a $300 million level of negative free reserves, but in doing so approach that level as a testing period. This would guard against inspiring any impression that there was in progress a major reversal of System policy that would in turn permit speculative activities in the Government securities market.

With respect to the directive, Mr. Mills said he had no brief for any particular wording, except that the Committee should move quickly to a revision that would lift the shadow of inflation out of the first part of clause (b).

Mr. Robertson stated that his comments probably would fall somewhere in the middle of the range of those that had been expressed. In the light of the comments by Messrs. Noyes, Thomas, and Marget, he would favor using the forthcoming seasonal situation to inject reserves into the banking system in the hope that this would expand the money supply. As he understood it, a short-term period was involved, and he would fully contemplate moving back in the not too distant future. For the moment, however, he would concur in the view of most of those who had spoken this morning.

With reference to the form of the directive, Mr. Robertson said that he would suggest eliminating from the present directive clauses (a), (b), and (c). He would eliminate clause (c) because he was not sure what it meant, and clauses (a) and (b) really represented continuing policy rather than a directive to the Manager of the Account. Turning to Mr. Hayes' suggestion, Mr. Robertson suggested incorporating his paragraphs (a) and (b) into a continuing statement of Committee policy. In lieu of the present directive, he would substitute a statement such as Mr. Hayes had labeled paragraph (c). The directive, which he thought should preferably be called the "instruction," would give the Manager of the Account authority to moderate credit restraint to a degree that would support current expansionary developments in the economy while guarding against a renewed outbreak of inflationary pressure. That would be the specific instruction for the ensuing three-week period, after which it would be amended. In the policy record, he would have the continuing policy stated once, and then, for the record of each meeting, just the changes in clause (c). That would provide a picture of how the Committee had changed its instruction from time to time as economic conditions varied, and it would carry out the need for issuing instructions to the Manager in a way that would be more readily understood by the reader of the policy record. The reader would not have to go through a long dissertation on instructions, some permanent and some not meaningful.

Mr. Robertson indicated that he would defer other comments until the Committee dealt with the question of continuing operating policies.

Mr. Shepardson said that the economic review indicated continuance of strong underlying factors throughout the economy. Expectations were not as exuberant as they were earlier, which he thought was a wholesome and healthy situation, and there was still a strong outlook ahead. It had been mentioned that retail sales were not quite as high as expected, but bad weather might have had some effect.

Mr. Shepardson said it concerned him that there had been not only a lack of growth but actual curtailment in the money supply. If the System was to provide for sound growth, there must be sound growth in the money supply. The System should look for opportunities when it could help to provide for some of that growth without undesirable effects. For that reason, and in view of the general tone at the present time, it seemed to him that the Committee could relax pressure. He rather liked the way Mr. Rouse had put it--relax the restraint--rather than developing ease. The System still needed to maintain a posture of restraint, but it was in position to relax for the immediate future and test the results. Accordingly, he would favor the suggestion made by several others of looking toward a target in the area of $300 million of net borrowed reserves in the forthcoming period.

After stating that he would not favor a change in the discount rate, Mr. Shepardson turned to the directive and said that, not knowing how fast the Committee could proceed on extensive changes, he would concur in a change at this time along the lines suggested by several persons so as to provide in clause (b) for fostering sustainable growth in economic activity and employment while guarding against excessive credit expansion. He saw real merit, however, in a revised approach to the directive which would provide for a separation of the Committee's continuing objectives, and in another section a relatively long-term statement of policy which would be changed infrequently when there was a definite and clear change in direction. The third section, it seemed to him, should define more specifically than heretofore short-run variations in the degree of ease or restraint. In summary, he contemplated three categories with a statement in the third part that would more accurately reflect variations from time to time. This would avoid getting into a position of having a statement continued for a year, or many months, under varying conditions. He would like to study such an approach further, but for the moment he would suggest a change in clause (b) along the lines that he had mentioned.

Mr. King said that the continuing trend of the money supply to decrease, or at best remain relatively steady, was a clear indication of the cumulating pressure of the Committee's policy of restraint. In his opinion, action to effectuate a reversal of this trend of the money supply was desirable at this time. He would not recommend any change in the discount rate. He thought it was in the right place from a technical viewpoint, and it certainly would not be appropriate to talk of a decrease with the international picture in mind. He would recommend a change in the directive along the lines of Mr. Balderston's proposal at the February 9 meeting and would hope that the Committee might adopt a target figure of about $200 million of net borrowed reserves. He would suggest a figure that low because net borrowed reserves for the four weeks ending February 24 averaged $370 million. If the average had been $500 million, he would have felt that a target of $300 million would be all right. However, with an average of $370 million, he felt that a target of $300 million would be a timid approach to the problem. If any reduction in actual pressure was to be accomplished, he believed it would require a target figure in the $200 million range.

Mr. King suggested that the System might be entering a new era of monetary policy. Since the time of the Treasury-Federal Reserve accord, the System had struggled with a money supply too large for the economy, but there were increasing indications that the country had pretty well grown up to this inflated money supply. In the past, the System constantly had to be on guard against further expansion, but it would now have to become more sensitive to the other side of the problem as well.

As to the directive, Mr. King suggested that the problem was primarily one of what the Committee did rather than how the directive was worded. On balance, he was rather inclined to stay with what had been tried and found workable. At the present time, he would suggest a change in clause (b) along the lines proposed by Mr. Balderston at the February 9 meeting.

Mr. Fulton reported that business activity was still at a high level in the Fourth District. There seemed little basis for pessimism. Expectations were that business would remain reasonably good, with fair profits, and businessmen were not looking for any unsustainable highs. In steel, a rate of production of around 80-85 per cent of capacity for the year as a whole was anticipated, which would afford good and steady employment. The prediction was now for production of about 125 million tons for the year, and higher tonnage was being obtained with fewer people, reflecting improvements in the mills. Inventories of customers seemed quite well satisfied, and customers were not stockpiling. Some had cut back the number of days' inventory on hand and were depending on the mills for prompt delivery. A check indicated that softness in the appliance industry seemed to center largely in washing machines and home dryers, which were in an over-inventoried position. Otherwise, the appliance industry as a whole was looking forward to a fairly good year. With new car inventories at around one million, production of parts was being cut back persistently in the Fourth District on a temporary basis and shorter workweeks also were in prospect. It had been indicated that automobile manufacturers would have their first showings of the new 1961 models a little earlier than usual.

Continuing, Mr. Fulton said it appeared that building and improvement plans of manufacturers were going along about as projected. One recent survey showed that 92 firms were expecting to increase expenditures 15 per cent in 1960 and 25 per cent in 1961, with emphasis on labor-saving machinery. As much as possible of the financing would be from self-generated funds. Building activity was holding up well in the district. The only thing of real concern at this time was the unemployment picture, which had not improved commensurately with the improvement in business. Unemployment was centered to a considerable degree in unskilled workers and women, while the demand for skilled workers was strong. Total bank loans were up from last year, although there reported to be no real rush for credit, and deposits were down. In the past three weeks, however, member bank borrowing had averaged only from 2 to 4 per cent of the System total, which was quite low.

Turning to policy, Mr. Fulton expressed the view that the Desk had done a good job. He felt that restraint was warranted. Possibly it was not warranted to the extent that it had been earlier, but he would not like to see any precipitate easing. A policy of meeting the requirements of the period immediately ahead would be appropriate, without any real easing. He would not favor doing anything with regard to the discount rate at this time.

Mr. Fulton felt that the directive could well be changed along the lines suggested by Mr. Balderston at the February 9 meeting. With respect to Mr. Hayes' suggestion, he was a little concerned about the wording of the proposed clause (c). This would call for guarding against a renewed outbreak of inflationary pressures, and in view of price increases and other pressures from that area he did not think that inflationary pressures actually had been allayed. Mr. Hayes' language would indicate to an outsider that the hazard of a renewal of inflationary pressures was something that the System should look at again, while Mr. Fulton felt that the hazard was still present.

Mr. Bopp said that in view of the considerable speculation recently as to whether business would accumulate inventories as rapidly as expected at the turn of the year, the Philadelphia Bank had made a spot survey of local manufacturers of metal products. This survey revealed that most of the manufacturers considered their present inventories too high and somewhat unbalanced. They had shortages of some items and surpluses of others. Inventories were accumulated rapidly in November and December in anticipation of a large outflow of incoming orders, but final demand appeared not to be as great as expected. Some firms, therefore, were now less optimistic about 1960, although they still expected it to be a reasonably good year. The changed outlook suggested that firms would be trying to operate more economically by holding down their inventory requirements.

Reserve pressures on the large Philadelphia banks had increased substantially, Mr. Bopp said. The combined basic reserve deficiency had risen in each of the three latest reserve weeks from a daily average of $12 million to $109 million. To meet the drain on reserves, banks had purchased Federal funds and, to a smaller extent, borrowed from the Reserve Bank. In the past three weeks, net purchases of Federal funds (excluding repurchase agreements) by reserve city banks averaged $52 million daily; they had risen from sales of $3 million to purchases of $85 million. Borrowings from the Reserve Bank had averaged $14 million. Borrowing from the Reserve Bank by country banks during the past three reserve weeks also averaged about $14 million.

As to policy, Mr. Bopp felt that a modest lessening of the degree of restraint would be appropriate, and that a change in the directive along the lines of the suggestion of Mr. Mills or the suggestion of Mr. Balderston would be appropriate. He would not favor a change in the discount rate at this time. Offhand, Mr.

Bopp said, the suggestions of Messrs. Hayes and Irons contained appeal. However, he would like more time to think them through before the Committee settled on any basic change in the form of the directive.

Mr. Bryan said there was nothing of particular significance in recent Sixth District figures. The Reserve Bank had made a spot check, principally among bankers but also a few businessmen and former directors in the principal cities, from which it appeared that there had been some shifting in sentiment and that optimism was less than it had been. On the other hand, the only real pessimism that was discovered, in New Orleans, probably related to the oil industry. All in all, there was nothing in the district that seemed visibly alarming, and by the same token there was no evidence of a hilarious boom. Borrowings from the Federal Reserve Bank remained high in relation to the System total, but the Reserve Bank had had some success in discouraging certain borrowers.

Mr. Bryan agreed with Mr. Irons that the Committee, as a group, was not going to be able to draft a directive at each meeting. There must be some mechanism so that when the Committee had indicated the nature of the directive it wanted, the drafting could be turned over to some person or persons. For the present, he would like to see the inflationary shadow taken out of the directive. As for more fundamental changes in the format of the directive and how the drafting of the directive might be handled, he noted that there had been a number of interesting suggestions during this meeting.

Continuing, Mr. Bryan commented that what he would have said himself regarding the money supply and reserves had already been said. He then referred to his experimentation with the possibility that the directive might be issued in terms of a total reserve concept. As things worked out in February, actual reserves were more than $390 million less, on a daily average basis, than the center of the target he had suggested. If the target had been hit, he presumed there might have been somewhat less bank liquidation of securities, somewhat less of a rise in rates, and, he suspected, somewhat greater repayment of loans to the Reserve Banks. He did not wish to assert, however, that this necessarily would have been a wise result; it would have to be tested in the light of subsequent developments. At the same time, in the light of the money supply and reserve figures in comparison to last year and in view of total reserves being deeply under a trend line, he had some concern, particularly because he guessed that there had been somewhat more than a typical reduction in required reserves of the banking system in this period. System policy had more than offset the ease that would have occurred by this reduction in required reserves.

Mr. Bryan said that he would like to experiment further with a possible target in terms of total reserves and requested permission to introduce a chart into the minutes of this meeting.

Chairman Martin stated that the chart would be incorporated in the minutes. 1/

1/ The chart is attached to these minutes as Item No. 1.

Mr. Johns said he would like to associate himself with the views expressed by Mr. Allen. He particularly liked Mr. Allen's method of expression, although the views stated were substantially similar to those expressed by two or three others. Mr. Johns realized that this established him as one of a relatively small minority.

Continuing, Mr. Johns said he would prefer no change in the discount rate at this time, although he thought some argument could be made for at least a technical adjustment, especially in view of the fact that if the Committee continued to follow an even keel policy during periods of Treasury financing there might not be another opportunity to change the discount rate for quite a period of time. Later, the System might wish that the discount rate was up to or above short-term market rates. Nevertheless, as he had said, he would prefer not to take discount rate action at this time. Instead, he would suggest that if a need to change the rate should become pressing while the Treasury was pre-empting the stage, the Committee might be forced to re-examine the even keel policy. He would not be averse to such a re-examination in any case.

Mr. Johns went on to say that if his own view on policy should prevail, he would suggest that there be no change in the directive at this time. However, since he felt quite sure that this view would not prevail, it would seem appropriate to revise the directive in some way consistent with Committee policy. These comments did not mean that he had no interest in the longer-range problem regarding the format of the directive. However, he felt that the problem could be handled without relation to current Committee policy.

After commenting favorably on the discussion this morning, particularly the part having to do with operating procedures and the form of the directive, Mr. Szymczak said he thought the economy was still on the expansionary side and the situation therefore was likely to develop into inflation. However, in view of the money supply and the seasonal situation, he felt that the Committee should ease its policy of restraint slightly at this point. To give an indication of the degree he had in mind, he would suggest net borrowed reserves in the range of $300-$400 million. He would not favor changing the discount rate at this time. As to the directive, it was his thought that perhaps the word "inflationary" should be included, and that the wording of clause (b) otherwise might be along the lines that had been suggested by Mr. Balderston. He would prefer to have the word "inflationary" stay in the directive as of now.

Mr. Balderston commented that, as many had pointed out, the money supply apparently had continued to decline since the February 9 Committee meeting. He assumed that fact would be confirmed when the February figure became available. As a matter of fact, the seasonally adjusted monthly figure had been declining since last July with the exception of one month. With a decline in turnover outside the financial centers, the level had been about 24.9, apparently unchanged since the first of the year. He believed one could not assume that depositors would find additional means of economizing on cash. This situation caused him to be concerned today, as he was three weeks ago, about the money supply.

Mr. Balderston noted from the reports of Messrs. Noyes and Thomas that banks had continued to divest themselves of Government securities. This process had placed the money supply under more restraint than he believed appropriate for this stage of the current recovery and in view of the current business uncertainty. Also, the percentage of companies able to better their year-ago earnings had been falling, reflecting competitive pressures and rising costs. He would use the coming weeks, as suggested by Mr. Robertson, to experiment with less restraint. In short, during this period he would add more reserves than those necessary to take care of seasonal and other temporary vagaries of the market. If the economy had now grown up to the reserves the System introduced in 1958, then to direct the Desk merely to take care of the seasonal needs of the next couple of weeks would not cause a change in the fundamental problem discussed at the February 9 meeting and this meeting. It would be necessary to do more than that.

With regard to the directive, Mr. Balderston said that until the form of the directive could be remodeled, perhaps along the lines suggested by Messrs. Hayes, Irons, Leach, Robertson, and Shepardson, all of whose suggestions he found helpful, he would favor the change in wording that he had suggested at the February 9 meeting. Clause (b) would then provide for "fostering sustainable growth in economic activity and employment while guarding against excessive credit expansion." Until the next Committee meeting, he would suggest a target of net borrowed reserves of about $300 million in view of the fact that the average since the turn of the year had been about $375 million, as pointed out by Mr. King.

Regarding the format of the directive, Mr. Balderston expressed the hope that the Committee would continue to study the matter between now and the next meeting. He felt the suggestion made by several persons that the Committee needed a three-fold directive would help straighten out a dilemma he had observed. As he saw it, the Committee needed a policy statement, standing orders, and an interim instruction. What Messrs. Bryan and Mills had contributed and what Mr. Thomas provided at the February 9 meeting would not help in connection with interim instruction to the Desk, although the suggestions of Messrs. Bryan and Thomas would help the Committee in checking its objectives from time to time. Perhaps words would suffice, but he hoped that the Committee could quantify those words in some fashion. Where the Committee had been wrong in recent months, he thought, was in permitting a fixed target of net borrowed reserves to distort the goal to which he felt the Committee had been driving. He did not believe that the Committee had intended to continue restraint to a point where the money supply failed to increase. He was grateful to Mr. Bryan for contributing something that, although it might not help in instructing the Desk week by week or meeting by meeting, would test the Committee's work over longer periods.

Chairman Martin said his concern about the money supply began at the turn of the year. In expressing that concern, however, he wanted to emphasize that he felt System policy had been about right, straight through from last July. In his view, the System had done a better job than it could have hoped for. It would take a long time to present all of the background of his thinking on this subject, but he would like at least to reiterate what he said at the January 12 meeting; namely, that he saw more hope than he had seen for a long time. He saw long-range solutions to problems now that a year ago seemed insoluble. At that time, the Treasury financing problem seemed hopeless, and the hope of getting the Treasury in the position of having a budget surplus seemed relatively hopeless. Today, one could take a good deal of encouragement. In his judgment, the tendency on the Hill as of today was not to spend. While there might be shifts in the budget recommended by the President, he felt the tendency was to keep in balance and perhaps have a surplus as large as projected, if not larger. This would have a stabilizing effect on the economy.

Since the time of the January 12 meeting, Chairman Martin said, all were aware that the country was probably going to experience the jitters of February and March, and that was occurring as in every other year. He had tried to compare the situation with the nine previous years during which he had been associated with the Treasury or the Federal Reserve. While he did not think he could assess the differences, he had hesitantly come to the conclusion that there might be developments this time of more importance than usual. Since Mr. Shepardson mentioned farm prices at a recent Committee meeting, he had talked to many people, and there appeared to be something going on in the farm picture that was a little deeper than a year ago. The oil industry also concerned him; he was not sure it was over the hurdle, for a glut was developing that bothered him. There were a number of other things that he would not detail, but they seemed to be straws in the wind. In this connection, he emphasized that he had prefaced these remarks by saying that he was very hopeful.

Chairman Martin said Mr. King had put his finger on something that he (Chairman Martin) had been going to say himself, although perhaps not quite in the same words. Mr. King had mentioned that if there was a long-run solution to the problem of inflation over the next few years, then the System must start thinking about the money supply in relation to business attitudes in a different way than heretofore. Illustrative of this was the fact that a leading student in the field, who thought that inflationary psychology had diminished a great deal in the last three months, now asserted that there would be a problem of business attitudes in living on the profit margin without inflation, because business generally had gotten accustomed to living with inflation. While this related to the profit margin problem and not to the level of activity, it was of concern in considering the money supply.

The Chairman said that in the 1957-58 recession, which was a phase of the inflationary process of the last 10 years, the country did not get adjustments in prices, other than interest rates. Then the money supply was expanded substantially. Whether the country had completely grown up to the expanded money supply, he did not know. Certainly, however, the System had done a fair job of mopping up that expansion.

The rest of the world, Chairman Martin noted, was concerned about inflation. The European boom was exceeding expectations and foreign countries were showing more zeal in handling inflation this time than heretofore. How successful they might be was another story, but the mere fact that a boom had developed might cause it to be more short-lived.

These were all things, the Chairman said, to which the Committee must be alert. It must not be assumed that inflation was the order of the day. Manufacturers who had subconsciously accepted it as part of the profit margin might now find themselves in the position of seeing their cost-price relationships changed. Of course, there might be another revival and the country might go on a spending binge, in which event the System might want to raise the discount rate. The Committee might well want to tighten credit further before this was all over. In long-range perspective, however, he had the feeling that the next time would be the end. It would be the last phase of this particular operation, assuming that the budgetary and fiscal situation and Governmental attitudes did not change substantially. In making this last comment, he was not talking about the elections but about other aspects of the matter.

Continuing, the Chairman said he thought that in a time like the present, the System should not just let the money supply continually diminish. This might be translated in terms of moving toward net borrowed reserves at a level of $250 or $300 million. This was an imperfect method, but the emphasis would be on moving, however one wanted to describe it. He thought that doing this on a temporary basis, even with the expectation that the Committee might have to reverse itself, was the part of wisdom and caution. He believed the longer-term future was well within the System's control if it recognized the need for development as well as the danger of inflation. What the System was trying to do was to keep a balance.

It was clear today, Chairman Martin said, that the general consensus, with which he agreed, favored moderately less restraint in the immediate future than had prevailed. He did not want to jump to the conclusion that the Committee would want to continue that course indefinitely, but he would like to see a slight pickup. He emphasized the point he made at the Committee meeting on February 9 that a good many informed people thought the System was already easing credit. Those people would be quite disturbed, in some cases, if they knew there had been no tendency to ease; that, if anything, the System had absorbed all the ease coming into the market and nevertheless there had been easing in the market. This was a phenomenon that had not been seen for some time in the money market, and many people in the financial community were concerned about it. For the first time, a small number of people felt that the country was in a recession, and this was also a factor to keep in mind. It was part of the psychological turn. He felt those people were wrong, and would be proved wrong, if they meant a broad movement. If they meant, however, a period of reduced activity, they might be quite right.

Chairman Martin again said that he thought the consensus today quite clearly favored a move in the direction of slightly less restraint, however that might be worded. When it came to the matter of the directive, he felt certain that the Committee could not write the directive around the table. He was quite interested in the suggestion of Mr. Irons, with whom he had not discussed the matter previously, and he felt that the suggestion should be discussed at some time. The possibility of having the Secretary of the Committee and the Account Manager write a directive following the meeting interested him. It might be a good exercise for the Account Manager to put on paper his understanding of the instructions at the meeting. He would not want to make a decision of that kind offhand, but it was something to look at. He felt that the directive and the operating procedures did to some extent go hand in hand.

The Chairman then suggested that the Committee continue the discussion of the directive and the continuing operating policies, with Messrs. Young, Thomas, and Rouse present.

Accordingly, all of the members of the staff except Messrs. Young, Thomas, and Rouse withdrew from the meeting at this point.

With the thought of providing full information on the issues before the Committee, namely, the present form of the statement of continuing operating policies and the form of the directive to the Federal Reserve Bank of New York, the Secretary had distributed, at the Chairman's request: (1) pertinent extracts from past minutes relating to the statement of operating policies; (2) suggestions for changes in the statement that had been advanced by members of the Committee and its staff; (3) a special defense of "bills only" prepared by the Treasury staff for the use of the Secretary of the Treasury; and (4) an inventory of issues in connection with the statement of continuing operating policies prepared by the Secretary of the Committee.

With respect to the statement of continuing operating policies, the consensus that developed from this meeting was favorable to reviewing the matter, but it was evident from the discussion that careful thought and full discussion would be required before any change was made. Accordingly, it was agreed that the existing statement of operating policies would be continued on a temporary basis, with the understanding that the question would be brought up again for discussion as soon as the members of the Committee had had an opportunity to develop their thinking further, especially in the light of whatever conclusions might be reached on the Treasury's suggestions mentioned below.

With regard to suggestions by the Treasury that the Committee might provide some assistance in connection with two forthcoming refinancings, two staff memoranda (one prepared by Mr. Keir of the Board's staff under date of February 26, 1960, and the other prepared by the Securities Department of the Federal Reserve Bank of New York under date of February 29, 1960) were referred to the staff committee consisting of Messrs. Young, Thomas, and Rouse for further study and recommendation at the next meeting of the Committee.

With respect to the format of the directive, it was understood that no change would be made at this time but that the matter would be given further study in connection with the study of the statement of continuing operating policies. It was unanimously agreed, however, that a modification of the wording of clause (b) of the first paragraph of the Committee's directive was called for at this time, and that operations for the System Account should be with a view, among other things, "to fostering sustainable growth in economic activity and employment while guarding against excessive credit expansion."

> 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 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.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, March 22, 1960, at 10:00 a.m.

Thereupon the meeting adjourned.

Ralph A. Young

Secretary

RESERVE TARGET FOR MARCH USING TOTAL RESERVES

(Daily average figures---000,000 omitted)

(1)	March growth amount (at 2% annual rate)			$ 31[1]
(2)	Target for February	$ 18,585		
(3)	Actual reserves - February	18,188	$ 18,188	
(4)	Shortage in reserves from February target	$ 397		397
(5)	Add normal increase in reserves between February and March		37	
			$ 18,225	18,225
(6)	Target for March			$ 18,653
(7)	March target range for practical administration of account			18,603 to 18,703

[1] March growth amount at 3 percent annually would be $47.0 million, at 4 percent annually would be $62 million.

Item No. 1