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, October 3, 1961, at 10:00 a.m.

PRESENT: Mr. Balderston, Presiding
Mr. Allen
Mr. Irons
Mr. King
Mr. Mills
Mr. Mitchell
Mr. Robertson
Mr. Shepardson
Mr. Swan
Mr. Wayne
Mr. Treiber, Alternate for Mr. Hayes

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

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

Mr. Young, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thomas, Economist
Messrs. Baughman, Coldwell, Einzig, Noyes, and Ratchford, Associate Economists
Mr. Rouse, Manager, System Open Market Account

Mr. Molony, Assistant to the Board of Governors
Messrs. Holland and Koch, Advisers, Division of Research and Statistics
Mr. Knipe, Consultant to the Chairman, Board of Governors
Mr. Yager, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors

Mr. Francis, First Vice President, Federal Reserve Bank of St. Louis

Messrs. Eastburn, Hostetler, Jones, and Tow, Vice Presidents of the Federal Reserve Banks of Philadelphia, Cleveland, St. Louis, and Kansas City, respectively

Mr. Litterer, Assistant Vice President, Federal Reserve Bank of Minneapolis
Mr. Schiff, Manager, Research Department, Federal Reserve Bank of New York
Mr. Stone, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Anderson, Financial Economist, Federal Reserve Bank of Boston

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on September 12, 1961, were approved.

Before this meeting there had been distributed to the members of the Committee a report of open market operations covering the period September 12 through September 27, 1961, and a supplemental report covering the period September 28 through October 2, 1961. Copies of both reports have been placed in the files of the Committee.

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

Open market operations during the past three weeks were complicated by wide swings in market factors, which required sizable operations on both sides of the market. Outright sales of securities--most of which were made early in the period to offset a part of the mid-month bulge in float--amounted to nearly $740 million, while outright purchases, made largely last Wednesday and Thursday, amounted to nearly $950 million. Since most of the purchases were Treasury bills, and since a part of the sales was in securities other than bills, our holdings of bills rose by about $385 million net over the period.

The money market was generally steady during the past three weeks despite the wide swings in reserves, and Federal funds traded for the most part between 1-1/2 and 2-1/2 per cent. Rates on three-month bills edged gradually lower

through yesterday, with the three-month issue closing last night at 2.24 per cent bid, 9 basis points below the rate at the time of the last meeting. Over the same period, British three-month bill rates have remained at around 6.44 per cent, while the discount on forward sterling has declined somewhat. As a result there was a spread of 34 basis points in favor of British bills on a covered basis yesterday, compared with a spread of only 2 basis points at the time of the last meeting. I should point out that too much emphasis may be placed on the British bill rate in this connection, and that the Euro-dollar rate is perhaps more important than the British bill rate. In yesterday's auction, the average rate on our three-month bill was 2.30 per cent, while the average on the six-month bill was 2.68 per cent. This is the fifth successive week in which the average rate on the six-month bill has been in the 2.68 - 2.70 per cent range.

The major part of the Treasury's financing program that we discussed at the time of the last meeting has now been completed. The results of the advance refunding were especially gratifying, and the auction of June tax bills went about as expected. The market's initial reaction to the $2 billion of additional 3-1/4 per cent notes of May 1963 was rather lukewarm, since the Treasury priced the issue right on the market, with the tax on loan account deposit, which is worth 4 or 5/32, providing the incentive margin against the current market. Nevertheless, it appears from early reports received from New York this morning that subscriptions may only be fair and that the guessing in the market last night that allotments may be in the neighborhood of 35 per cent may be low. The Treasury will complete the current phase of its financing program with the auction next week of $2 billion one-year bills to replace $1.5 billion bills maturing October 16. Looking further ahead, the Treasury will have to raise some additional cash during this calendar year, with the amount depending very largely upon whether it handles the $7 billion November 15 maturity through a cash or an exchange offering. That refinancing will be a sizable operation, particularly since almost the entire issue is publicly held. I should add that with the success the Treasury has had in its financing program thus far, and the good performance of the market in recent weeks, the market thinks that the climate may be right for a junior advance refunding at an early date, and the Treasury is giving some consideration to this possibility.

Thereupon, upon motion duly made and seconded, the open market transactions during the period September 12 through October 2, 1961, were approved, ratified, and confirmed.

There followed an economic presentation in the form of a chart show. In concluding the presentation Mr. Thomas presented summary comments as follows:

First, the recovery in activity so far has been as fast as in the first half of the 1958 upswing. This was unexpected. Not only that, the rise started from a level substantially above the low of early 1958 and the present level is substantially higher, both in absolute terms and in relation to the previous peak, than the level at this stage of the 1958 upswing. If further advance lies ahead, on a scale comparable to that after the autumn of 1958, the level reached by mid-1962 will be much higher than that in 1959-60 and the growth rate for recent years will appear to have been considerably higher than had been thought.

It is possible too that activity will rise substantially further and without much price advance. So far there has been little evidence of upward price pressures, less than at the comparable stage in 1958. Price advances then, moreover, were limited despite speculative buying of steel in the spring of 1959 and a wave of optimism at the end of the steel strike. Some of the same forces that limited price advances then--such as international competition--are still present.

The credit situation does not show evidence of continuing speculative activities and there has been no such dramatic advance in interest rates as occurred in the summer of 1958. Yields on long-term securities are still above those of late 1958 but not by much.

Looked at in other ways, the facts are subject to other interpretations. One alternative view is that, strong as the advance over all has been so far, it has depended too much on an inventory turn-around and increased defense outlays. Housing starts have risen only moderately. There is little evidence yet of real strength in consumer buying and that is basic to any important sustained advance in business spending for inventories and capital goods and to any further substantial rise in general

economic activity. In this broad view the recovery may prove abortive, stopping at levels only moderately above 1959-60.

A third view is that recovery forces will prove cumulative in their impact, with higher incomes leading soon to increasing consumption, and thence, along with other influences, to higher utilization of capacity, and upward pressures on prices. Under such circumstances, inventory buying would be presumed to increase considerably further and there would be heavy capital outlays for capacity expansion as well as modernization. The continuation of the Federal budget deficit through the second half of 1962 tends t· support the view that total demands will rise sharply. Current lags in unemployment, consumption, business loans, and the money supply would disappear. With such developments, restraints on credit expansion would be needed at some stages.

These are all possibilities that need to be weighed in thinking about fiscal and monetary policy. If this Committee could act only at intervals of several months, a decision among the alternative prospects would be pressing. With action being taken continuously, however, policy can be made more on the basis of established facts and less on the basis of speculation about the future, taking into account, of course, lags between policy action and economic responses. Retail sales performance in the current month, for example, should be especially helpful in evaluating the underlying strength of consumer demand, one of the major uncertainties in the present situation.

At this point the need for some additional credit and monetary expansion seems evident if we are to achieve higher levels of resource utilization. Apparently, restraint is not yet needed. In the record of commodity prices there is as yet little evidence of strong upward pressures. Yet, it is important in supplying the basis for desirable monetary expansion to avoid laying the seeds for unsound debt expansion and inflationary developments.

Before this meeting, Mr. Balderston had distributed a memorandum dated September 28, 1961, with respect to the derivation of "Adjusted Available Reserves." At this point, he called upon Mr. Thomas, who commented on staff projections of reserves as prepared at the Board and

at the Federal Reserve Bank of New York, as well as on the chart that had been distributed with Mr. Balderston's memorandum showing total reserves available to support private deposit expansion.

Mr. Treiber then made the following statement regarding the business outlook and credit policy:

> The domestic business and credit situation continues to develop satisfactorily, without any obvious signs of strain. There has been little basic change in the economic and financial picture since the last meeting of the Committee. There has been no rush on the part of consumers to buy, nor on the part of businessmen to build up inventories or to expand plant and equipment. The increase in corporate profits in the second quarter of 1961 may, however, provide both the means and the incentive for further investment outlays. In view of the increase in corporate profits and in corporate income taxes resulting therefrom, the Treasury deficit now appears more manageable than might have been feared earlier. The unemployment problem remains serious.
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> The demand for bank loans has been roughly in line with business developments. There is no indication of exceptional borrowing in expectation of higher interest rates or inventory needs.
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> While price stability does not appear threatened from the demand side, there is some concern about the effect of a possible wage push. The automobile settlement seems to provide for larger wage increases (tentatively estimated at a bit higher than 4 per cent a year) than the probable gains in average productivity in the nation as a whole. So far there appears to be little or no change in the basic pattern of demands for higher wages; nor is there sufficient recognition that the vulnerability of American industry to foreign competition has introduced a new element into the wage picture.
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> On the international side, preliminary estimates for August show a marked improvement in our balance of payments over the poor July figures. The dollar has been somewhat stronger in the exchange markets. These favorable developments, however, do not justify any relaxation in our effort to solve the balance-of-payments problem. Over the last three months

there was a balance-of-payments deficit at an annual seasonally adjusted rate of close to $2-1/2 billion; a continued expansion in business can be expected to increase imports further and to make more difficult the correction of the deficit.

Europeans are still watching closely developments in the United States. At the annual meeting of the International Monetary Fund in Vienna there was considerable emphasis by some Europeans--with an obvious eye on the United States--on the relation between sound and vigorous domestic policies and the need for additional international credits such as were discussed at the meeting. The United States gold stock will probably decline substantially this week, and short-term rates here are low compared with rates available abroad. The dollar is still vulnerable.

The Treasury is moving forward with its crowded calendar of financing in which it has been engaged more or less continuously for several weeks. Payment must be made on October 11 for the additional $2 billion of 3-1/4 per cent Treasury notes of May 15, 1963, offered for subscription yesterday. The Treasury has just announced the terms of a $2 billion issue of one-year Treasury bills to provide $1/2 billion of cash and to refund the $1-1/2 billion of one-year Treasury bills maturing October 16, and there is talk about a possible junior advance refunding.

The domestic and business credit situation still calls for a policy of monetary ease. Treasury operations counsel the continuation of an "even keel" in the money market. We must continue to be alert to the possibility that not only a wage-cost push but also stepped-up defense spending and related expansion in private spending may place excessive pressures on the price structure and endanger economic stability; this is still a matter of being alert rather than a matter calling for immediate action.

We think it desirable that there be some increase in the rate on three-month Treasury bills which has been about 2-1/4 per cent for the last several weeks. We would prefer to see the rate nearer the middle or in the upper part of the 2-1/8 - 2-5/8 per cent range that has existed over the last year--if necessary, at the expense of a somewhat lower level of free reserves. Thus, while we favor continuation of the same degree of ease as has prevailed since the last meeting, we would resolve doubts on the side of less ease.

> We see no reason for a change in the directive. We believe that the authority to engage in transactions in longer-term securities should be continued and that the discount rate should not be changed.

Mr. Francis said that in the Eighth District business conditions had continued to improve but the rate of improvement had not been spectacular. Agricultural prospects were better than a year ago. However, the stubbornly high level of unemployment, the pattern of production activity among manufacturing industries, and the lack of expansive loan demand at District banks suggested that some of the earlier vigor of the recovery was lagging. He noted that the lateness of the cotton crop had been a factor in the weakness of demand for credit, particularly in the Memphis area. As to the national situation, it appeared to be quite comparable to that observed for the Eighth District. Disposable personal income continued to rise but consumer purchases were showing a surprising lack of exuberance, and plant capacity was not being fully utilized. Unemployment rates continued high and price levels were not under pressure. Coupling these indications with an international balance-of-payments situation that harbors problem potentials, but offers no observable reason for a change in attitude toward domestic affairs during the next few weeks, he could find little reason to urge a more restrictive monetary policy than that followed recently. He was pleased with the recent substantial increase in total bank reserves. In sum, he saw no reason at this time for change

in the Committee's directive, the discount rate, or the special authorization for purchases of longer-term securities.

Mr. Bopp said that in the Third District production and employment were rising and unemployment was declining. An exception to the general evidence of continuing business expansion was to be found in department store sales, which fell in September on every basis of comparison and now for the year to date failed to exceed 1960. Bank credit was expanding, deposits were rising, and banks (both reserve city and country) were in an easy reserve position. Even though the Treasury was not in the market, Mr. Bopp said that he felt on balance the condition of the economy favored maintenance of the status quo. He was conscious that he had been recommending the same policy for some time and he was alert to the fact that a change might become necessary. While he would be looking for any need for a change in policy, he still could see no need for that change at the present time and would recommend continuation of the same degree of ease that had existed in recent weeks with no change in the Committee's directive or other policy measures.

Mr. Fulton said that new orders for steel were not increasing to the extent that had been expected and that a considerable portion of the steel being produced was going into inventories at the mills rather than for immediate shipment. The situation in the automobile industry had caused some stockpiling and orders for steel from that industry were not

now being placed in quantity. New orders were expected only in relation to sales of new model cars. Steel producers looked longingly to increasing prices on the basis of the wage increase that became effective October 1, Mr. Fulton said, but there was little hope that they could actually make an increase effective at the present time because of the amount of capacity not being used, the slowness of new orders, and the recent reduction in the price of aluminum which is competitive with steel in many ways. There was no change in the unemployment situation, with 11 of the 14 major areas in the Fourth District still classed as substantial areas of unemployment. Department store sales declined in September and for the year to date were 1 per cent below a year ago. Building permits had slowed down in Cleveland although some public works had helped maintain building in other parts of the District. Bank credit was not increasing and there was no pressure for loan expansion. All in all, Mr. Fulton said that the District was having a sidewise movement which led him to the conclusion that no change should be made in monetary policy, that the same degree of ease that had existed recently should be maintained, that there should be no change in the Committee's directive or its special authorization permitting purchases of longer-term securities, and that the discount rate should remain unchanged for the present.

Mr. Mitchell said that if the Committee had some arrangement whereby it could tell what was going on currently and last week, perhaps it could act in some way today. It did not have that information, and the Committee was faced with a basic uncertainty as to what the final takings of consumers would be. There did not seem to be much to do at this time but to continue as during the past few weeks. Mr. Mitchell felt it would be unfortunate if anything done by the Committee could be interpreted by the business or financial community as indicating that the Committee had taken a step of some sort because of a belief that a change had taken place in the situation. Therefore, Committee policy and operations should continue just as in the recent past.

Mr. King said that he would second the comments Mr. Mitchell had made. It looked extremely doubtful to him that the boom that had been forecast by the rise in the stock market earlier this year was going to be pronounced. Producers today obviously were under twin restraints of foreign competition and excess capacity. Although not every producer was directly subject to foreign competition, he was indirectly affected. A producer could not raise prices without peril of losing part of his market or going out of business. On the basis of August and September data, Mr. King felt it difficult to conclude that the country was in a great period of advance. He did not want to sound overly pessimistic although he had been somewhat that way since the beginning of this year.

He would not resolve doubts in the Committee's operations on the side of less ease, as Mr. Treiber had suggested, but would vote against any such instruction. With the recent strength apparent in the longer-term Government securities market, he saw no reason for the Committee's taking action that would result in an increase in the bill rate. He hoped that rate could stay about where it is and would not object if a slight decline occurred. In his judgment, the country was simply not experiencing a dynamic recovery at this point, and the sooner this was recognized the more likely it was that Committee actions would result in good for the economy. He would make no change in the discount rate or in the directive and would continue the special authorization with respect to longer-term Government securities. He would make no change whatsoever in the degree of ease in the market.

Mr. Shepardson said that the presentation of the economic situation given this morning showed clearly a tweedle-dee tweedle-dum situation. On balance, a continuation of the policy that the Committee had been following recently was indicated. He differed a little from Mr. King in that he was inclined to agree with the suggestion that Mr. Treiber had made that if any doubts had to be resolved, he would resolve them on the side of less ease. In fact, he felt it would be fortunate if there were some rise in the bill rate in the light of the international situation. Other than that, Mr. Shepardson said that he

believed the Committee should continue its policy and operations on the same basis as during the past several weeks, bearing in mind that the time was getting closer when the Committee might have to be prepared to move promptly to modify policy.

Mr. Robertson said he did not think there was much basis in the economic information available for a great difference of view among the members of the Committee, and that this was borne out from the comments made thus far. The outlook seemed clear: there was very little justification for any deviation from present policy in the light of the underutilization of resources in productive capacity or manpower. Certainly, ease should be maintained. However, he was one who could understand the third alternative that Mr. Thomas had presented in his summary of possible courses, namely, that recovery forces would prove cumulative and that restraint on credit expansion would be needed at some stage. His feeling was that there would be continuing expansion and the time would come when there was a possibility of recurrence of inflationary conditions with pressures increasing all along the line. The Committee should be prepared to act at that time. Although he would make no change in the direction of policy at this time, he would be happy if during the next three weeks operations would strive for net free reserves in the $500-$550 million range--no great variation from the degree of ease recently. He would suggest that the

Committee should not continue to guide its policy by the level of the bill rate--too much emphasis had been put on the bill rate. In sum, he would make no change in the directive, no change in discount rate, and proceed as indicated.

Mr. Mills said that the economic experience since 1958 had been arbitrarily posed as a basis for comparison with the 1961 experience and also as a basis for policy considerations by the Committee. He was not at all sure that 1958 as a benchmark in retrospect would not turn out to be a delusion and a myth. There were other benchmarks that might have been chosen, possibly with equal comparability. With that as a background, Mr. Mills said that his approach to policy formulation was a classic one and a much more spartan approach than had been expressed thus far in the discussion. He then presented a statement as follows:

> Students of public finance are the most frequent and vocal critics of financing a deficit in the national accounts through the commercial banking system as being dangerously inflationary, but in the case of the United States no real clamor has been raised against that practice as it now exists. Over the past year our commercial banks have increased their holdings of United States Government securities by substantially more than the increase in the Federal deficit and debt and, on prospect, can be expected to add still more to their portfolios. The absence of criticism for this development has been buried in the concern over what has been a lethargic increase in the money supply and a continuing evidence of slack in the economy, which have overridden doubts about the inflationary implications of present financial trends. The fact that prices have been generally stable has been taken as a favorable financial omen when, in fact, their stability revives the possibility, in my mind, that the economy has not as yet completed downward passage through a major business cycle and that full recovery from its

stagnating effects still lies ahead. If this should prove to be the case, the constant piling up of reserves in the commercial banking system is storing up trouble for the future at the time when the holders of time and savings deposits will begin to convert them to more dynamic economic uses. A strong demand for bank credit will then appear which can be readily satisfied by bank substitution of loans for investments in United States Government securities subject to the restraining influence of higher reserve requirements on the newly created demand deposits that will develop in replacement of a reduction in time deposits. Upward price pressures would certainly occur under these conditions and the ingenuity of Federal Reserve System officials would be taxed to devise ways to prevent the eruption of dangerous inflationary financial conditions.

In my opinion, the Federal Reserve System should not be quiescent about permitting this possible kind of situation to develop and should act now to limit, and maybe to absorb, the excessive liquidity in the commercial banking system, which liquidity is now giving evidence of spreading to other sectors of the economy. A start should be made in bringing down the level of positive free reserves to around $400 million, and if in that process interest rates move up, an increase in the discount rate to 3-1/2 per cent will be in order. For that matter, the disparity between short-term interest rates in the United States and Great Britain argues for higher rates in this country as a hindrance against renewed gold losses and as a token of our determination to counter inflationary influences. Frequent allusions in the financial press to a seeming lack of Federal Reserve System recognition of the need for moving toward a restraining monetary policy indicates that in the public's mind such action is past due. In any event, it would be folly to look to Great Britain to lower its interest rate structure in order to accommodate a level of interest rates in the United States that is becoming unrealistic.

No change in the directive is suggested and a renewal of the special authority is in order. In the latter respect, I wish to record a modification of my earlier position in favor of disengagement from open market actions outside of the Treasury bill sector. Although opposing purchases of longer-term United States Government securities for the System Open Market Account and recommending divestment of those now held, further experience has justified operations in short-term United States

> Government securities other than Treasury bills as being in the interest of a flexible conduct of monetary policy. However, the advantages of the policy flexibility that has been gained through these dealings would be enhanced if more emphasis were placed on sales of such securities when withdrawing reserves as compared to the weight that has been given to purchases made to supply reserves.

Mr. Wayne said that, despite some hesitations, Fifth District business remains basically strong. In August nonmanufacturing employment was at a record level due to widespread gains, the largest of which were in government, construction, services, and trade. In manufacturing, however, both employment and man-hours showed less than normal seasonal increases, largely because of conditions in nondurable goods industries. Opinions received in a recent survey of manufacturers around the District were less optimistic than they were three weeks ago but still indicated that in September factory production was moving up slightly. On balance, these reports showed gains in factory employment and weekly hours backed by generally good levels of new orders. Textile order backlogs have been rising since the first of the year and inventories are down moderately; yet in some sectors of the industry problems relating to uncertain demand, rising costs, and foreign competition are still troublesome. Retail sales are reportedly about the same as they have been all year--good but not good enough. Contract construction workers numbered more than 300,000 in August, a new record for the District; and the value of building permits in principal cities exceeded the previous high by a substantial margin. Responding to stronger demand again last

month, coal mines hired more labor thus maintaining this year's pattern of fairly stable employment in sharp contrast to annual declines averaging 10 per cent over the last three years.

Business and all other (primarily consumer) loans at District banks have shown notable strength in recent weeks, moving up at a better-than-seasonal pace. The rate of increase in time deposits tapered off somewhat in September, and in the final week for which data are available these deposits declined for the first time since April. District money market banks made large net sales of Federal funds in the last two weeks, after moderate net purchases in early September.

In the area of policy, Mr. Wayne said that developments since the preceding meeting provided no basis for any significant change in posture. The current recovery now seemed to be a bit more moderate than it appeared three weeks ago, and there was still no evidence of the beginning of any general upward movement of prices. As often noted, the Treasury's schedule of financing left few times in which it would be feasible to make any substantial changes of policy and none of the openings appeared in the weeks just ahead. In the international field, London bills have had a relatively small and varying advantage over New York bills on a covered basis for several weeks. Any substantial fall in the domestic bill rate, if other factors remain unchanged, might start an outflow of short-term funds. The domestic situation called for no more restraint, the international position called for no more ease,

and the Treasury schedule called for stability. The answer seemed obvious--the Committee should maintain its present posture, which meant no change in the discount rate or in the substance of the directive. He also favored renewing the special authorization for purchases of longer-term securities.

Mr. Clay said that present circumstances appeared to call for a continuance of essentially the same monetary policy that the Federal Reserve System had been pursuing. Economic activity was continuing to expand but there was no evidence of overexuberance on the part of either business or consumers. In fact, the pace of expansion had moderated somwhat from the pronounced forward thrust of the initial months of the upswing. Moreover, the private demand for credit in both the commercial banks and the capital markets did not give evidence of strong cyclical expansion. Altogether, these factors indicated that monetary policy should continue its role of encouraging the expansion of economic activity and the fuller utilization of manpower and other resources.

During part of the period until the next meeting of the Committee, Mr. Clay noted that the Treasury's financing activities would need to be taken into account in conducting the System's open market operations. Avoidance of any change in the System's monetary policy would be consistent with both the needs of the Treasury and the continued pursuit of the appropriate policy of monetary ease. He also suggested that, in

conducting open market operations, the level of the Treasury bill rate would need to be watched with reference to the flow-of-funds problem. Recently, the bill rate had been at about the lower limit that would appear to be in order so far as this aspect was concerned. No change was called for in either the discount rate or the directive, Mr. Clay said, and the special authorization with respect to operations in longer-term Government securities should be renewed.

Mr. Allen said that the situation was about the same as at the last meeting in that business activity continued to increase, but at a less rapid rate than in the spring and early summer. In the three weeks ended September 16 new claims for unemployment compensation in the Seventh District were 20 per cent less than in the same period last year, compared with a drop of 11 per cent for the nation. In August, Milwaukee was reclassified from "substantial labor surplus" to "moderate unemployment" and was the only large city in the nation reclassified in August. He believed that before the end of the year a number of other Seventh District cities would be reclassified upward, such as Rockford, Detroit, Flint, and the Gary-Hammond steel area.

In the area of prices, Mr. Allen said that there was a good deal of talk about tough price competition in such lines as industrial equipment, plumbing and heating equipment, farm machinery, radio-television, and petroleum products. A representative of the steel

industry had reported that while officials resent the President's public request that the industry refrain from raising prices, there appeared to be little chance of an "across the board" increase in any case.

The closing of General Motors plants incident to labor contract negotiations affected both production and sales of automobiles for September, Mr. Allen stated, but if Ford and Chrysler escaped without shutdowns, Detroit analysts expected the best fourth quarter since 1955, with sales of 1,600,000 units and production of 1,800,000 units. He noted that the industry was in disagreement as to which of the 1962 models should be labeled compact, and until a standard was devised and agreed upon, percentage figures of compact production and sales would be meaningless.

Borrowing at the discount window of the Chicago Reserve Bank continued negligible and member banks which operate in the Federal funds market had been net sellers, with one or two exceptions. Weekly reporting banks in Chicago now hold $2.5 billion of Government securities, of which about half mature within one year. This was twice as much as a year ago and supported the statements that the banks were able as well as willing to handle considerable additional loan demand.

Mr. Allen repeated that he felt we were about where we were at the time of the last meeting. The rate of rise in business activity had

slowed, but the rise was going on and there was widespread confidence that conditions would continue to improve. The number of unemployed was still high. The international problems were no less serious. And Treasury financing continued to be a matter which must be taken into consideration. His conclusion was that the Committee should carry on until the next meeting its effort to maintain that degree of ease in the money and credit markets that had existed for some time. He would not change the discount rate or the directive, but he would discontinue the so-called special authorization permitting purchases of longer-term Government securities.

Mr. Deming said that the Ninth District economy continued to move more slowly than that of the nation. A look at the whole third quarter showed a marked slowdown in over-all activity in July and August, followed by some strengthening in September. District banking continued to experience relatively weak loan demand. July-August data for all member banks showed loan declines larger than in almost any comparable month in the postwar years, and these contrasted with gains in most years. City bank data for September showed a continuation of this trend. Deposits rose, but investments increased substantially less than the decline in loans. Bank liquidity consequently had improved significantly. There had been no borrowing at the Reserve Bank during the last week, and city banks had not borrowed at the Reserve Bank for many months.

Mr. Deming went on to say that the information given in the chart show this morning confirmed his feeling of uncertainty about the national picture. This uncertainty had to do more with the implications for financial markets and for credit policy of further economic expansion than with the probabilities of such expansion itself. The Treasury financing situation made the policy prescription for the next three weeks relatively easy for the Committee, that is, no change in policy, in the degree of ease, in the Committee's directive, or in the discount rate.

Although this policy decision was relatively easy, Mr. Deming felt that it might be inadequate. The "open season" for policy change came on to the Committee quickly and would be short. He was disturbed by what seemed to be increasing talk about price advances. There might be no discernible price pressures, he said, and analysis might indicate little in the short-run future, but there was more talk about increasing prices than he wished to hear. He also was disturbed by some implications of outside commentators that economic expansion could be accompanied by no financial pressures, and by the further implication that Federal Reserve policy might continue to be easy for an indefinite period. He was impressed by the words used in the summary concluding the chart show presentation this morning, "Restraint is not yet needed . . . . Yet, it is important to avoid laying the seeds for unsound debt expansion and inflationary developments." Thus, it seemed to him that the chances were

better than even that monetary policy would move toward some restriction in the future and that for the immediate period doubts should be resolved on the side of less ease.

Mr. Swan said that business activity in the Twelfth District continued to reflect only moderate or quite gradual improvement. However, nonfarm employment on a seasonally adjusted basis rose significantly faster in the District than in the nation during August. Previously, the District had been lagging considerably in employment. The rise during August was largely offset by an increase in labor force, however, and there was little change in the unemployment situation. Construction continued at a quite satisfactory level during August. Department store sales, after a disappointing August, showed year-to-year gains during the first three weeks of September. Bank loans had increased in almost all categories during the three weeks ended September 20 but the rise was less than seasonal except for real estate loans. Banks had been heavy sellers of Federal funds during the three weeks ended September 20 but more recently they had been about in balance.

Mr. Swan commented that, in view of the rather wide fluctuations in other factors affecting reserves during the past three weeks, he thought the Desk had done a very good job in coming out about where it had in its operations. As to policy, he agreed with those who felt that operations should continue to produce about the same degree of ease in the next three weeks, partly because an even keel was called for by the

Treasury financing but also because he could see no indication of developments that called for any lessening in the degree of ease in the period immediately ahead. Consequently, his view would be that no change in the Committee's directive or policy should be made and that there should be no change in discount rate at this time. Also, he would continue the authorization for purchases of longer-term securities.

Mr. Irons said that estimates of damage caused in the Eleventh District by the recent hurricane ranged rather widely but that it appeared the dollar losses would be much less than some of the figures earlier mentioned. His own judgment was that the total dollar loss might be around $300 million with insured coverage of about $100 million. Repair of damage would give some stimulus to construction and plant expenditures, but the return of most plants to productive activity had been surprisingly rapid. With respect to current conditions in the District generally, employment had shown little change while unemployment had decreased slightly in recent weeks. Construction contracts, which had declined in July and August, were expected to be higher during the next few months, partly as a result of repair of damage caused by the hurricane. Agricultural conditions were very good except in the hurricane area. Bank loans had shown a fairly sizeable increase in the past three weeks, with a moderate decline in investments. Demand deposits had risen while time deposits had declined. Banks were reasonably liquid and borrowings from

the Reserve Bank were small with no city banks borrowing recently. In sum, District conditions could be described as reasonably satisfactory and showing a broad upward movement. Mr. Irons felt that this condition would continue and possibly be stimulated by reconstruction from the hurricane.

As to the national picture, Mr. Irons felt that with economic conditions as described earlier in this meeting and with the Treasury financing situation and international conditions being what they were, the Committee could strike a balance between the domestic and international situation by continuing a policy of ease that would be reflected in free reserves of around $450 to $500 million, a bill rate in the 2-1/4 to 2-1/2 per cent range, Federal funds in the 2 to 2-1/2 per cent area, and little borrowing at the Federal Reserve Banks. Mr. Irons said he liked the comment that Mr. Treiber had made that doubts should be resolved on the side of less ease, although he felt the System certainly should supply seasonal requirements and perhaps a little more. Beyond that he would be inclined to the view Mr. Mills had expressed as to what might be ahead in the more distant future. He would make no change now in discount rate or in the Committee's directive and would renew the authorization permitting purchases of longer-term Government securities.

Mr. Ellis summed up the New England situation by stating that it was caught up in a vigorous lull. The lull in production continued

during August, and the rise in employment also was stalled in August. Insured unemployment seemed to be declining more recently and in the first week of September was below the rate of a year ago for the first time since March 1960. Business loans had shown more than the seasonal growth as had deposits. Banks continued to expect a substantial loan demand this fall and felt well equipped to meet it. They did not visualize any boom conditions.

In the field of monetary policy, Mr. Ellis said that he had been impressed by the chart show this morning, particularly by the summary presented by Mr. Thomas. The third alternative that Mr. Thomas had outlined, that is, that recovery forces would prove cumulative and that restraints on credit expansion would be needed at some stages, seemed a likely development in Mr. Ellis' opinion. There was no evidence that credit was unduly stimulative, but the most likely projection was that it would become so if policy were continued in its present position for too long. As Mr. Mills had indicated, the run-up in credit could be quite sharp. Mr. Ellis said he was glad that the Committee did not have to consider a change in policy at this time in terms of the Treasury financing schedule. The only concession he would make toward the longer run view he had expressed was that he would agree with Mr. Treiber's suggestion that doubts be resolved on the side of less ease and that the short bill rate be permitted to range somewhat

higher. He was not prepared to seek a lower free reserve level or to accept materially higher bill rates. There should be no overt action indicating a change in Committee policy, no change in discount rate, and he would continue the special authorization with respect to Government securities' purchases.

Mr. Balderston stated that the consensus appeared to call for no change in the Committee's directive and for continuation of the degree of ease that had prevailed during recent weeks. Most Committee members would make no change in the discount rate, and the special authorization for transactions in securities outside the short-term maturity range would be renewed with Messrs. Allen and Robertson dissenting. He inquired whether there were dissents from the policy indicated by the consensus other than those of Messrs. Allen and Robertson on the special authorization. Mr. Mills said that he wished to have recorded his dissent from the policy indicated by the consensus. For reasons that he had indicated earlier, he believed that policy should move more positively to a degree of less ease. He still would contemplate a reserve base ample or more than ample to support the credit needs of the economy, but in his judgment there were more than enough reserves now to provide a base for satisfying such credit requirements and in fact he was fearful that the amount of shrinkage he had indicated would still leave reserves at too high a level. He recognized, however, that

in moving back from the present degree of ease the Committee must move cautiously and experimentally. Mr. Mills also said that, while he dissented from the consensus as to policy, he would approve the wording of the existing directive to the Federal Reserve Bank of New York.

Mr. Balderston asked whether there were other dissents, and Mr. King raised the question whether the consensus included any statement as to resolving doubts on the side of restraint. After Mr. Balderston stated that no such provision was in the consensus that he had presented, there was a general discussion of its wording. During this discussion, Mr. Shepardson and several others indicated that they would prefer that doubts be resolved on the side of less ease, but the Chairman pointed out that less than a majority of the members of the Committee had so expressed themselves. Therefore, the consensus that he had presented included nothing on resolving doubts either way. He then inquired of Mr. Rouse whether he had any questions as to the interpretation of the consensus as stated, and the latter responded in the negative.

Mr. Balderston indicated that the consensus as he had stated it would be approved, Mr. Mills dissenting, and the directive to the Federal Reserve Bank of New York would be renewed without change.

Thereupon, upon motion duly made and seconded, it was 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 encouraging credit expansion so as to promote fuller utilization of resources, while giving consideration to international factors, 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.

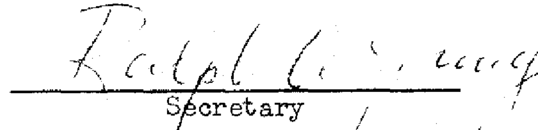
Mr. Balderston noted that Messrs. Allen and Robertson had indicated that they would dissent from action to renew the special authorization regarding purchases of longer-term Government securities for the System Open Market Account and this was confirmed.

The Committee then authorized the Federal Reserve Bank of New York, between October 3, 1961, and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting to acquire

> intermediate- and/or longer-term Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.
>
> Votes for this action: Messrs. Balderston, Irons, King, Mills, Mitchell, Shepardson, Swan, Wayne, and Treiber. Votes against this action: Messrs. Allen and Robertson.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, October 24, 1961.

The meeting then adjourned.



Secretary