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, January 23, 1962, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Irons
Mr. King
Mr. Mills
Mr. Mitchell
Mr. Robertson
Mr. Shepardson
Mr. Swan
Mr. Wayne
Mr. Fulton, Alternate

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

Messrs. Bopp, Bryan, Scanlon, and Clay, Presidents of the Federal Reserve Banks of Philadelphia, Atlanta, Chicago, and Kansas City, respectively 1/

Mr. Young, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Thomas, Economist
Messrs. Baughman, Coldwell, Einzig, Garvy, 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, Board of Governors
Mr. Furth, Adviser, Division of International Finance, Board of Governors
Mr. Knipe, Consultant to the Chairman, Board of Governors
Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors

1/ Mr. Bryan joined the meeting, with Mr. Brandt, at the point indicated in the minutes.

Mr. Broida, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors

Messrs. Eastburn, Hostetler, Jones, and Tow, Vice Presidents of the Federal Reserve Banks of Philadelphia, Cleveland, St. Louis, and Kansas City, respectively
Messrs. Stone, Brandt, and Litterer, Assistant Vice Presidents of the Federal Reserve Banks of New York, Atlanta, and Minneapolis, respectively
Mr. Cooper, 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 December 19, 1961, were approved.

Under date of January 5, 1962, there had been sent to each member and alternate member of the Federal Open Market Committee, and to each President not currently a member of the Committee, a copy of the report of audit of the System Open Market Account made by the Division of Examinations of the Board of Governors as at the close of business August 25, 1961. The report, which has been placed in the Committee's files, was submitted to the Secretary of the Committee under date of October 3, 1961, in accordance with the action of the Federal Open Market Committee at its meeting on June 21, 1939, as reaffirmed most recently at the meeting on March 7, 1961.

Chairman Martin inquired whether any of the members of the Committee wished to comment on the report, and there was no indication to such effect.

Accordingly, the audit report was noted and accepted without objection.

Before this meeting there had been distributed to the members of the Committee a report of open market operations covering the period January 9 through January 22, 1962. A copy of this report has been placed in the files of the Committee.

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

The results of open market operations since the last meeting of the Committee have not been entirely satisfactory because of the persistently greater ease in the money market than I think the Committee would have preferred. Free reserves averaged $548 million for the week ended January 10 and $464 million for the week ended January 17. Federal funds have traded below 3 per cent during most of the period, especially in the last two business days, when they declined to 1-1/2 per cent and 1-1/4 per cent, reflecting in part the flow of country bank excess reserves to the money centers. However, over a longer period these developments have been largely due to a continuing unusually high level of float and a substantial decline in required reserves, both of which factors have been hard to anticipate and deal with. Treasury bill rates have declined from the 2-3/4 per cent level for 91-day bills as a result of an increasing interest in bills from many sources, including banks having surplus reserves. The average rate for 91-day bills in yesterday's auction was about 2.68 per cent as compared with 2.77 per cent in the previous week's auction; the average for the long bills was 2.88 per cent yesterday, compared with 2.97 per cent a week ago.

We have been reluctant to sell Treasury bills more heavily in order to deal with the bill rate because of the possibility that float would decline sharply overnight, in which case we would most likely have to reverse our operations and supply reserves in volume. While we cannot say even closely when float will go down, projections for the next two weeks indicate that we may have to supply as much as $500 million of reserves to keep reserve availability about where it has been. Any sizeable purchases of bills cannot help but push bill rates even lower

and it seems unlikely that any large amount of securities other than bills would be available for outright purchase. In any case, it would probably not be appropriate to buy much in the intermediate area in the face of the forthcoming February Treasury refinancing. We may, however, be able to achieve something through repurchase agreements.

The Treasury's borrowing of new cash through the reopening of the 4 per cent bonds of 1969 was a moderate success in that the offering was adequately covered with most of the subscriptions being from smaller commercial banks, as the Treasury had anticipated. Since the bonds were well placed in the subscription, the floating supply of the issue has been relatively small. And to the extent that there is a floating supply it is probably concentrated in the hands of large banks that went in on an underwriting basis and that are experienced participants in the market. As a result, the after market has been a good deal better than many in the market thought it would be when the 60 per cent allotment was announced. That subscriptions were not greater can be attributed to the fact that the larger commercial banks were generally not interested in extending maturities as far as 1969 in the face of a probable offering of a shorter intermediate issue in the February refunding operation. The Treasury took a calculated risk in offering the 4s of 1969, believing that it was better to take advantage now of an opportunity to extend to 1969 rather than wait until the February refunding, even though this move might create a problem for the refunding. The Treasury also took into consideration its unwieldy debt structure and the opinion of foreigners with respect to how the debt is managed.

It appears now that the February refunding might have to be limited to a short "anchor" issue and something in the 4-5 year area, for which there still seems to be a good appetite. The market generally is expecting the refunding to be carried out on an exchange basis and is currently bidding modest premiums on the maturing issues. The maturing issues total about $11 billion in three issues of notes, of which over $6 billion are held by the public. An announcement of the terms is to be made on February 1.

Thereupon, upon motion duly made and seconded, the open market transactions during the period January 9 through January 22, 1962, were approved, ratified, and confirmed.

The economic review at this meeting was in the form of an auditory-visual presentation, for which Messrs. Cardon, Garfield, Hersey, Axilrod, and Trueblood of the Board's staff joined the meeting.

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

> In February last year the recession ended. The decline had lasted about as long as earlier postwar declines but had been much milder, and the turnaround came with production still considerably above the preceding low point of April 1958.
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> The initial rise was sharp, as in 1958, but in contrast to 1954. By July, before the defense program was expanded, industrial output was up 10 per cent, to 112 per cent of the 1957 average. From then until October there was little further rise, but later advances brought the index to 115 in December--nearly 5 per cent above the mid-1960 level.
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> Gross national product figures, when adjusted for price changes, tell about the same story for activity in the whole economy. Last year, with prices rising little, GNP in current dollars rose from an annual rate of $501 billion in the first quarter to $542 billion in the fourth quarter. This quarter the rate may well exceed $550 billion.
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> Meanwhile activity abroad, which rose further early in 1961, leveled off later. In Western Europe, industrial production has been advancing rapidly for a decade-and-a-half with only minor pauses--apparently little influenced by recurring recession in the United States.
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> So far, prices of industrial commodities generally have not shown the advance usually evident by this stage of the cycle, lending support to the view that this recovery may be more sustainable than some others. Sensitive prices, which did rise from January to August, have since fluctuated within a narrow range. Since the end of November steel scrap prices have risen, accompanying a strong advance in steel output, which may reflect in part building of inventories in anticipation of a possible strike this summer.
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> While the general shift from inventory liquidation to inventory replenishment came unusually early this time and was an important element in the initial recovery in demand and production, the fourth quarter rise in aggregate demand

reflected almost entirely a sharp increase in final demands, especially consumer demands. The fourth quarter rate of inventory accumulation was not especially high.

While demand and production have increased considerably since last winter, there still appears to be enough unused capacity to permit some further rise in activity without creating strong pressures on resources or prices. How much is one of the tough questions. Important shortages may develop in particular areas while the economy at large or even the manufacturing sector is still operating well below capacity. The postwar high for manufacturing, reached in mid-1953, was 94 per cent. Also, changing expectations as well as changing rates of activity may affect demand. This time, however, with a climate of opinion in which fewer people regard inflationary developments as inevitable, it may be possible to achieve higher levels of capacity utilization than in other recent periods without developing strong inflationary pressures. The current situation thus holds out hope for the future, but it also continues to present problems which have become all too familiar. While nonagricultural employment rose by a million after early 1961, the number unemployed in December represented about 6 per cent of the civilian labor force. This was slightly higher than the proportion unemployed at the corresponding stage of the previous upswing in early 1959, and at no time during 1959-60 did unemployment fall appreciably below 5 per cent.

The balance of payments also remains a major problem. The high trade surplus early in 1961 reflected a low level of imports due to recession in this country. Transfers of gold and dollars were temporarily in our favor in the second quarter, partly because foreign governments made special debt repayments to the United States. At current levels of U. S. demand for imports, the trade surplus is again too small to cover our adverse balance in other payments and receipts. Private capital outflows, both short-term and long-term, have been an important element in this adverse balance.

Developments leading to speculative buying and a broad rise in prices in this country would aggravate the balance of payments situation and have disturbing repercussions on the domestic economy. Thus another problem, as the economy moves toward higher utilization of available resources, will be to avoid inflationary developments.

During the past year, an increased supply of bank reserves, together with an increased flow of saving into financial assets,

helped borrowers to obtain a growing volume of funds in credit markets without a sustained or substantial rise in interest rates. Demands for credit, mainly Federal and long-term private credit, expanded after the early months of last year, and for the year as a whole 25 per cent more funds were raised in credit and equity markets than in 1960.

Increases in bank loans and investments supplied a larger portion of credit demands than in most other years. The public's dollar holdings of liquid assets increased substantially during the year, but not so rapidly as GNP. Thus the ratio declined--as it has in other recovery periods.

Partly as a result of monetary and debt management policies, directed toward fostering economic recovery and at the same time not encouraging an outflow of funds abroad, interest rates have moved within a narrow range since mid-1960. They did not decline as low as in early 1958, nor did they show the sharp rise that followed later in 1958.

The economic presentation also included sections on the U. S. balance of payments, recent demand changes in the United States, recent changes in employment and unemployment, prices, monetary and fiscal developments, and the Federal budget. The concluding portion of the presentation was as follows:

We may well ask what general observations emerge from our rather detailed analysis. What is there significant that can be said in a few words about the past developments, future prospects, and current problems relating to the balance of international payments, unemployment, and inflationary potentials?

First of all, in discussing production, employment, demands for capital goods, interest rates, and the like, repeated reference has been made to the mild nature of the 1960-61 recession. While the U. S. economy did not show the sort of stability evident in Western Europe, it did show less decline this time than in any other postwar recession.

Second, the turnaround in early 1961 started from a trough much above that in April 1958. The rise in industrial production from the 1958 low to the 1961 low was more than

twice as large as the advance from the 1957 high to the 1959-60 high. Moreover, although unemployment is still disturbingly high, it did not reach as high a level in the recent trough as it did in 1958.

A third point emerging is that the current recovery has its own characteristics. Unlike 1954, when any real advance was delayed for several months after the decline ended, recovery this time began immediately after the low was reached. Unlike 1958, the 1961 increase in activity slowed down after only five months of rapid advance, with industrial production in the second five months rising only three per cent rather than seven.

Commodity prices meanwhile have been unusually steady in this recovery. Consumer prices are still increasing somewhat, it is true, but the advance lately has been chiefly in the service area and there the rate of increase has been less rapid than earlier. Belief in the inevitability of inflationary developments appears to be less widespread than it was earlier, although yields on common stocks are lower relative to those on bonds than early in 1959.

Interest rates in this upswing have risen relatively little, following only moderate declines during the recession. Fluctuations in business profits have been less sharp than in earlier cycles, and this has been a principal factor making for less drastic shifts in Federal revenue and the various net budget positions.

The rather generally moderate nature of developments in business and finance, moreover, has permitted continuation of a policy of making bank reserves readily available longer during this recovery than in earlier periods, even though operations have endeavored to discourage the outflow of short-term funds to markets abroad.

This brings us to the future, and here the observations mainly take the form of questions. Will the generally moderate nature of the recovery and the greater stability of prices so far tend to make expansion more sustainable this time? It should, but immediately questions come to mind about the possibility of inventory accumulation in anticipation of a steel strike, as in the first half of 1959. Will the developments then be repeated? It is easier to say that history seldom repeats itself than it is to see a clear path to an early settlement of the strike.

A broader question is how much further the use of available resources can be expanded without creating strong upward price

pressures? Surely some distance, and perhaps farther than before, if it is generally felt that inflation is not inevitable.

What are the directions in which progress can be sought in the balance-of-payments situation? Avoidance of cost and price rises is one of the most basic essentials of any program in this area and dampening of incentives to lend and invest abroad is another.

These are all problems that cannot be solved by monetary and fiscal policies alone. Efforts must be made by business and labor to achieve and maintain a cost and price structure that will stimulate demands from abroad and can sustain demands at home. Thus, with an approach to a balanced Federal Government budget in prospect, along with the existence of a substantial but not excessive degree of financial liquidity in the economy, the need for fiscal and monetary restraints, or stimulants, will depend mainly upon demands as they develop in the private economy.

It was understood that copies of the text of the economic presentation and the accompanying charts would be sent to the Committee and would be placed in the files of the Committee.

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

It seems to me that the over-all domestic business situation has changed very little over the last two weeks. Although the signs of a possible acceleration that were apparent two weeks ago have faded, nevertheless the prospect is favorable for continued healthy expansion. It was encouraging that the strong advance in GNP in the fourth quarter was achieved without help from inventory accumulation. Inflationary overtones are still conspicuous by their absence, and there are no definite signs yet of any unsound steel inventory buildup in anticipation of a steel strike. In contrast with some softening in automobile demand in December, consumption of other durables and of nondurables improved.

While the expansion in total bank loans in December was less than might have been expected from the earlier data on weekly reporting member banks alone, it would still appear that there has been some modest improvement in bank loan demand, after making

allowances for special factors, including tax borrowing and year-end window-dressing transactions. Business loans have now risen just as much above the recession trough as they did in the corresponding period following the 1958 cyclical trough. Comments of New York City bank loan officers tend to confirm the view that loan demand is rising a little better than seasonally. The latest statistics on the money supply and related data suggest that the economy's degree of liquidity is generally appropriate.

In contrast with the domestic scene, the balance-of-payments position remains decidedly disturbing. It is true that the preliminary estimate of the December deficit is a trifle better than the estimate available at the last meeting. But it still points to a deficit in the fourth quarter of $5 to $5-1/2 billion, seasonally adjusted annual rate, and a deficit of $3 billion for 1961 (excluding special debt repayments). The merchandise trade surplus has behaved surprisingly well, with some apparent increase from the third to the fourth quarter--but some drop in the months to come might reasonably be expected on the basis of cyclical phasing here and abroad. Meanwhile the recent over-all deficit figures suggest that short-term capital movements, including "unrecorded transactions," have been moving heavily against this country. While it is doubtless better to have the deficit attributable mainly to these short-term flows than to more basic long-term deficiencies, it is the size of the over-all deficit that determines how many additional dollars are being placed in the hands of foreigners and therefore how large an additional drain on our gold stock is being potentially created. Moreover, the trend of the over-all deficit is undoubtedly causing a good deal of concern abroad. We cannot afford a complacent attitude toward such developments. Monetary policy cannot do the whole job of remedying the balance of payments, nor should we give the public the impression that we think it can do the job; but the Federal Reserve is as much concerned with protecting the international standing of the dollar as any other arm of the Government, and in some respects more directly so.

I shall not try to go into detail on the relationship between the heavily adverse short-term capital movement and the relative position of interest rates and credit availability here and abroad. The relationship has been well spelled out in previous discussions at Committee meetings and in various memoranda to which the Committee members have had access. In general,

however, it is hard to deny the importance of the fact that this country is just too easy a place in which to borrow and not a sufficiently attractive place in which to invest. As the domestic economy continues to improve, we can well afford to take steps to modify this set of conditions and try to induce some return flow of capital, without incurring undue risks domestically.

In terms of open market policy this means that we should edge towards less ease, with close attention to short-term market rates. I can see no reason whatever for maintaining free reserves at approximately the same level as late last summer, in view of all the economic changes that have occurred since. I would think we should try to keep the ninety-day bill rate above 2-3/4 per cent, and that we would prefer to see it move towards the 3 per cent level, even though it be at the expense of lower reserves, however measured. The current economic policy directive could be couched in such terms.

It would be well if a good start along these lines could be made between now and the time of announcement of the Treasury's February financing. Most signs now point to the likelihood of our having to proceed further in this tightening process after the refunding is completed. It would be fairer to the market to make some start, at least, before the terms of the offering are settled, to minimize later accusations that we have "pulled the rug out" from under the subscribers to the new issues. By the same token, this would suggest that we urge the Treasury to use shorter-term issues, which are less vulnerable pricewise, and to price them generously.

In our Bank my fellow officers and I, as well as our directors, have done a good deal of soul-searching lately on the subject of a possible discount rate increase. The balance-of-payments problem is serious enough to raise the question whether we should not act on the rate in advance of a market rate rise, in order to emphasize the increase as a signal of our determination to do our part in meeting the critical international problem. On the other hand, I recognize that we have very little time before an "even keel" policy is once more required. I also recognize that discount rate action for which the way has not been paved through market rate developments could subject the System to accusations of premature tightening that might endanger the domestic expansion, especially if it gave rise to exaggerated expectations as to future monetary restraints.

At the same time, we cannot escape the fact that we shall be subject to severe criticism if inaction on our part should contribute to a new dollar crisis.

On balance, I would be inclined to pass up the idea of a discount rate move in the immediate future, with the thought that a move may very well be seriously considered following the next meeting. In the meantime I would hope that spokesmen for the System would stress to the Administration the seriousness with which we regard the international outlook and would urge a more prompt and vigorous concerted Government program to meet the balance-of-payments outlook as we appraise it--in which program a contribution in the field of monetary policy, as set forth above, would play a part.

Mr. Johns said he found himself in agreement with the view expressed by Mr. Hayes that the System should be moving toward less ease. Although he recognized the differences between this period of recovery and expansion and similar periods since the Treasury-Federal Reserve Accord in 1951, it seemed to him, nevertheless, that the time was either here or rapidly approaching when the monetary policy that the System had been following must be reconsidered. It appeared to him that in no similar period of the business cycle since the Accord had monetary policy been so easy, even taking into consideration the fact that velocity had not been increasing as rapidly as in earlier periods. Whether monetary actions were measured by the rate of change in bank reserves, the rate of change in the money supply, the change in interest rates, or free reserves, the fact remained that the System had been and was following an expansionary policy. Further, the degree of ease now being pursued was comparable to that of a year ago, when the country was in recession, which raised the question whether the same monetary policy was appropriate at such dissimilar points in the business cycle.

Mr. Johns said he was inclined to believe that the rate of increase of reserves and money ought to be permitted to decline, or caused to decline; he would suggest a decline to about half the rate of increase that had occurred during the past few months. He would expect such a decline to be followed by increases in interest rates, and the Treasury bill rate would probably rise to or above the present discount rate. At that time, if not before, he would think that the discount rate should be adjusted upward. Higher interest rates would be beneficial from the standpoint of the balance of payments, both in the shorter and the longer run. Further, he found it difficult to have any great confidence in the view that the danger of inflationary price rises was less now than it had been in previous periods of expansion in the past decade. As he recalled, it was not until after this stage of the business cycle that marked price rises occurred in previous periods of expansion, and that might also be the case this time.

Mr. Bopp commented that the generally optimistic sentiments of two weeks ago did not seem quite as strong today. The spurt that seemed apparent two weeks ago had suggested that the pace of expansion might have been quickening more than most people were anticipating, and that it might not be long until evidence was seen of stresses and strains in the economy. However, the pace of activity now seemed to have settled down somewhat, and one could feel more secure in advocating a continuation of the monetary conditions that had prevailed, abstracting the past two

weeks. There was no evidence of significant price changes, and until such evidence did appear a presumption would exist on the side of continuing the degree of monetary ease that had existed prior to the past week or so. He would recommend such a policy.

Mr. Fulton reported that industrial production continued generally strong in the Fourth District in the early part of the current year. Nevertheless, there had been a fairly acute reduction in new car sales, unemployment had risen a bit more than seasonally, and department store sales had slipped.

Turning to the steel industry, Mr. Fulton said that orders were still coming in and that the order books were full for the first quarter for certain kinds of steel. It was estimated that inventories in the hands of users were about 11 million tons, which was low in relation to the present use of steel. However, inventories were expected to build up to 21 million tons by midyear in anticipation of a strike, whereas a normal level of inventories at the current rate of consumption would be about 15 million tons. Therefore, it appeared that the latter part of this year would be marked by a considerably lower output of steel. Regardless of how much talk there might be about not accumulating large inventories, there were pressures for such accumulation. However, borrowing to finance the building of inventories had not yet shown up because the orders for steel were booked for delivery after the first of the year, even though the steel mills began to accumulate some inventories prior to that time for future shipment.

In view of the present and prospective borrowing of activity in the first part of this year from activity in the latter part of the year, Mr. Fulton said that he would not like to see any drastic revision of the availability of credit. Free reserves had been more than adequate in the recent past, however, due to float and other unforeseen conditions. He would like to see the bill rate maintained at around 2-3/4 per cent, which probably meant that free reserves would have to be lower than at present, perhaps between $400 and $450 million. He would not favor changing the discount rate at this time.

Mr. Mitchell said he would agree precisely with Mr. Bopp and roughly with Mr. Fulton. He had only two other comments. First, he thought there was an increasing tendency to employ what might be called a count-down technique in monetary management. This involved beginning with a certain month of trough or peak, counting months from that point, and concluding that the time had come to make one move or another. However, the peculiar value of monetary management was in not counting out actions in advance. Instead, monetary policy should be formulated according to the events of the moment. When people said that this was the time to act because a certain number of months had elapsed since a given point, he would be cautious about accepting that kind of advice. The second point that he wished to make related to the comments of Mr. Hayes about the international situation. It might be true that this country was a good place to borrow for people in countries with higher

interest rates. Nevertheless, one must be cautious about adopting a particular policy that was at odds with what the domestic economy required. A move in the direction of higher interest rates would not, in his opinion, renew the confidence of foreigners in this country. Such a move would perhaps make it a little harder for American banks to lend abroad, but this was about as much as the technique could hope to accomplish. Therefore, while the Open Market Committee should give thought to what Mr. Hayes was saying, he (Mr. Mitchell) would be reluctant to move too far in the direction of encouraging higher interest rates.

At this point Mr. Bryan joined the meeting, along with Mr. Brandt.

Mr. King indicated that he agreed with the point of view expressed by Mr. Bopp. Developments in the market, as referred to earlier by Mr. Rouse, should be kept in mind. The seasonal pressure had appeared that one would normally expect to appear, and in his opinion it would have been a mistake to try to counteract that pressure fully. In the prevailing circumstances, he felt the System Account had been handled well during the past two weeks. There should be no discount rate increase at the present time.

Mr. Shepardson said that he was inclined to agree with the views expressed by Messrs. Hayes and Johns. The supply of reserves and money had been building up at a faster rate than was anticipated. At its two preceding meetings, the Committee had talked in terms of leveling off the rate of growth somewhat, and it seemed to him that the growth rate

should be leveled off. The System should be cognizant of the international situation and make such contribution as it could in light of that situation. This would call for a trend toward less ease, and he would concur completely with the appraisal of Mr. Hayes.

Mr. Robertson recalled that at the meeting five weeks ago he had expressed the view that there should be a gradual edging toward less ease. Two weeks ago he expressed the same feeling, although his view was moderated at that time by the advisability of maintaining an even keel in the light of Treasury financing. Today, however, he did not have the same view. There appeared to have been a moderating of the pace of expansion and of credit demands such as to make it appropriate to continue the degree of ease that the System had been seeking, with a view to stimulating the domestic economy and thus enabling the unemployment situation to be dealt with better. For the time being, therefore, he would continue the same degree of ease that had prevailed, abstracting the past two weeks, until after the next Treasury financing. In any event, there was only a week remaining in which the Committee could do anything. Thereafter, it would want to maintain an even keel, and in his view the situation was not so clear as to warrant any firming operation at this particular point. As to the discount rate, this would be an inappropriate time for a change. However, the time might not be too far off when a shift to appreciably less ease would be appropriate. At such time the discount rate perhaps should be raised, but not now.

Mr. Mills said he shared entirely the views stated by Messrs. Hayes and Johns. He had been of that opinion for many weeks. However, because of earlier monetary and credit policy decisions and the imminence of the Treasury's refunding operation, policy formulation was now caught in midstream. There was no opportunity at present to breast the current and develop the firmer interest rate structure that in his opinion was called for by balance-of-payments considerations and the general posture of the economy. Accordingly, a policy that would produce the modest kind of restrictiveness that was conceived of at the January 9 meeting of the Committee, but which was not achieved, should be the objective until the next Committee meeting. If events should work in favor of an even more restrictive policy, however, he would consider it desirable to capitalize on them.

Looking toward the development of a consensus and the issuance of instructions to the Account Management, Mr. Mills said he was concerned about the framework in which the Committee's recent directives were couched. In that connection he presented the following statement:

> Experience with the current economic policy directives issued at the Committee meetings held on December 19, 1961, and January 9, 1962, cannot be considered satisfactory. Essentially the instructions contained in the two paragraphs of the directives are contradictory because of the practical difficulty of attempting to develop a firmer interest rate structure simultaneously with liberally supplying reserves. As has been demonstrated by actual test, on the occasions where positive reserve actions have been taken to shore up Treasury bill rates, the supply of reserves has been reduced

below levels deemed to be consistent with an adequate credit base, while vice versa on the occasions where reserves have been supplied to raise their level to a hypothetically established point, it has tended to bring Treasury bill rates down unduly. The general result of these diverse actions has been a tinkering with the short-term interest rate structure that in effect is a disguised attempt to peg the Treasury bill rate. As a policy of this sort becomes more widely recognized in investment circles, opportunities for playing the market against the Federal Reserve System will be seized upon. (In that connection, I call the Committee's attention to an article in the current issue of Business Week, which refers to the views of certain former members of the Federal Reserve staff.)

A change in the character of the current economic policy directives that are presently being issued is imperative because, even now, the early publication in the Federal Reserve Board's Annual Report of the record of the year-end meeting of the Committee may prove to have been harmful. In my opinion, the content of the current economic policy directive should be confined to the kind of over-all guidance set out in the first paragraph of the last two directives, and a second paragraph such as has followed should be omitted. This refinement in drafting the directive would serve the purpose of placing the objectives of Federal Reserve System monetary and credit policy within the framework of a historic relationship to a calculated basis of credit availability on which interest rates are determined largely by the interplay of market factors with a minimum of artificial interference.

Mr. Wayne said that such additional statistical information as had become available in the Fifth District since the previous Committee meeting provided a rather substantial echo of the stentorian note sounded at that meeting by Mr. Noyes. The District economy was showing continued strength.

Mr. Wayne went on to say that during the past two weeks the Desk had faced unusual difficulties in attempting to carry out the current policy directive. Seasonal factors affecting reserves had behaved somewhat

erratically, causing large errors of estimating, and there had been a slow downward drift in short-term rates. He would have preferred a lesser downward drift, or none at all, although he recognized the circumstances involved. At present he would favor no substantial change in policy, in view of the desirability of maintaining an even keel during the period of Treasury financing that was just ahead. However, the directive issued two weeks ago contemplated a three-month bill rate in the area of 2.8 per cent, and he would try to get back to that level before the Treasury announcement. For the period immediately ahead, therefore, he would like to see the bill rate in that area and free reserves somewhat below $500 million, with priority given to the bill rate. He would hope that such conditions could be achieved in the next statement week, after which he would hold as steady as possible during the Treasury financing. In other words, the period of even keel should start from a point of less ease than during the past two weeks: about the same degree of ease that prevailed at the time of the January 9 Committee meeting. He did not feel that a discount rate change would be advisable at this time. As to the current policy directive, he would favor renewing the existing directive subject to the interpretation he had just stated.

Mr. Clay commented that except for the first week, the period immediately ahead again was one in which Treasury financing was the

dominant consideration in the formulation of monetary policy--calling for the maintenance of the so-called "even keel." For that first week, as well as for the period of Treasury financing, monetary policy should remain essentially unchanged, with approximately the same degree of ease that had been maintained in recent weeks. So far as the international balance-of-payments problem was concerned, it would appear in order to continue the recent goal of about 2-3/4 per cent in the Treasury bill rate. At the same time, domestic economic developments called for the continuation of a monetary policy that would encourage expansion in economic activity. Obviously, this view also would incorporate within it no change in the Reserve Banks' discount rate.

Considerable encouragement, Mr. Clay noted, had been derived from the improved consumer performance of the past three months or so, but it was not a performance of such exuberance that it needed any dampening down. A strong pick-up in business capital outlays would appear to be essential to a satisfactory level of total activity. While enlarged outlays for business equipment began early in this upswing, available information did not yet give evidence of any pronounced upturn in total business capital outlays. Residential construction last year had been encouraging in that the record was better than anticipated, but present evidence did not indicate any strong expansion in that sector. Moreover, the pace of economic activity presently was being affected by

stockpiling efforts in anticipation of a possible steel strike. As mentioned by one Committee member at the January 9 meeting, this impact needed to be discounted in determining basic monetary policy. When these things were taken into account, along with the ample supply of manpower and other resources, and the favorable performance of commodity prices, the resulting case was one that argued against tightening of monetary policy quite apart from Treasury financing requirements.

Mr. Scanlon said that in general economic activity in the Seventh District was showing a favorable trend. However, there was still considerable elbow room for further increases. As to policy, the view expressed by Mr. Wayne tended to have appeal to him.

Mr. Deming reported that in December nonagricultural employment in Minnesota was ahead of the year-ago level by one per cent. Also, it was estimated by State officials, off the record, that employment would be about 3 per cent higher this year than in 1961, with unemployment about 1/2 of one percentage point below the 1961 average. While these figures did not indicate a low level of unemployment, they did indicate some improvement.

Mr. Deming also reported a rise in time deposits and business loans in the Ninth District. As to time deposits, most banks were taking advantage of the higher ceiling and were raising their rates. In the three weeks ended January 10, total time deposits at city banks, including savings deposits, moved up almost 3 per cent, a substantially greater

upward movement than at any comparable time in the past and 4 to 6 times as high as the average. The next highest rise on record was in January 1957, after the rate ceiling had been moved from 2-1/2 to 3 per cent. The one mutual savings bank in Minneapolis reported people standing in the lobby to deposit money. In summary, the results of the rate increases seemed to provide a reasonably clear indication that the rate of interest paid does make some difference. In large measure, the gain in total time deposits apparently was coming in the form of new money, though with some shifting from demand to time deposits. Within the total of time deposits a significant shift from savings to time certificates was indicated. As to business loans, during the past three weeks there had been a contraseasonal increase at city banks. While this was not a significant movement, it represented a change from the pattern that had occurred previously. Loan demand, as judged by bankers, was not expected to be unusually strong, but stronger than in 1961. For the first half of this year, it was anticipated that loans would average 5 per cent above a year ago.

As to policy, Mr. Deming said he found himself pretty much in agreement with Mr. Wayne. Although he subscribed to the analysis made by Mr. Hayes, he did not agree with Mr. Hayes on the matter of timing. For the next three weeks, he believed that an even keel should be maintained. He was not quite sure how this thought should be translated in the directive since, through inadvertence, an even keel was not

maintained during the past two weeks. Essentially, however, he would favor the degree of ease that the Committee had contemplated achieving during the past two weeks.

Looking at the calendar, Mr. Deming noted that the statement week figures for the next week would be released on February 1, the same day that the Treasury refunding announcement was due to be issued, and part of an even-keel policy would be to avoid shocking the market on that date. Consequently, he would temper the goal of a somewhat higher bill rate by keeping an eye on free reserves in view of the imminence of the Treasury financing.

Mr. Rouse commented at this point that any lower free reserve figure for the statement week ending January 31 would be preceded by a firmer feel in the money market for several days during the statement week. It might turn out that the Federal funds rate would be more or less at 3 per cent throughout this period. Therefore, a somewhat lower free reserve figure would not come as a shock to the market.

Mr. Rouse added that the maintenance of the bill rate at around 2-3/4 per cent had been due in part to special factors, including the change in maximum permissible interest rates on time and savings deposits, Treasury financing in the bill area, and year-end credit demands. At present, reserve positions were about as easy as last fall when the bill rate was around 2-1/4 - 2-1/2 per cent, and it might be difficult to maintain the bill rate in the 2-3/4 per cent range.

Mr. Deming said that he would not be concerned if free reserves ran somewhere between $400 and $450 million, but he would be concerned if they came out at $250 million right at the time of the Treasury announcement.

Mr. Rouse commented that the reserve projections for the week of January 31 assumed a rapid decline in float, which might not occur due to continued adverse weather conditions. Therefore, the free reserve figures might work out reasonably well.

Mr. Swan reported that there had been no significant change in the economic picture in the Twelfth District during the past two weeks. The expansion was continuing with considerable strength. Preliminary figures on unemployment in the Pacfic Coast States in December indicated that there had been a slight further drop to the national rate of 6.1 per cent following a rather substantial drop to 6.2 per cent in November. Department store sales were continuing strong in January, and steel output rose sharply in the first two weeks of that month.

As to time deposits, Mr. Swan said there had been increases in rates pretty much across the board as far as banks were concerned, and time deposits including savings deposits, had risen substantially in contrast with the usual decline for this period. There seemed to be a considerable response to the higher rates, although to some extent there may have been a shifting around of deposits to take advantage of the rate changes. The large District banks had recently been net buyers of Federal funds, and they expected to be net buyers in the current week also.

As to policy, Mr. Swan said it seemed to him that thus far the expansion had been fairly well balanced and noninflationary. There was only a short time remaining before the Treasury refunding announcement, and he saw nothing sufficiently compelling in the picture to require attempting to move in the direction of a tighter situation during that short period of time. Consequently, he would agree, generally speaking, with the view that the Committee ought to continue pretty much along the lines that it had contemplated two weeks ago. He would have in mind a bill rate in the area of 2-3/4 per cent, which might be associated with a level of free reserves somewhere around $450 million. As had been mentioned previously, the higher free reserve level at the present time reflected unforeseen developments in terms of float, and the level was not as significant when float was in the picture as under other circumstances.

Mr. Irons stated that Eleventh District conditions were fundamentally sound, with evidences of strength and further advance. Certain unfavorable developments during the past three weeks were attributable to adverse weather conditions. There had been damage to agriculture in the lower valley, and retail trade, including department store sales, reflected the poor weather. However, the industrial production index was up and employment had risen to a record level. Unemployment was running about 4.9 per cent. Heavy construction projects were extensive in Dallas, Houston, and other large cities.

The financial situation, Mr. Irons said, was highlighted by adjustments incident to the new higher permissible rates of interest on time and savings deposits. Many of the larger banks had increased their rates to the maximum, along with some of the smaller banks. Talk was heard about a shifting of portfolios so as to include more tax-exempt securities and real estate loans, but he did not think that much had been done as yet. Reporting banks showed a decline in demand deposits and loans, with an increase in time deposits and investments. Some of the increase in time deposits might represent new money, but there was apparently a considerable amount of shifting out of demand deposits, savings bonds, and equities. Borrowing from the Reserve Bank was at a low level. In the past three weeks, District banks had shifted, on average, from net purchasers of Federal funds to slight net sellers. Bankers and other informed persons seemed to anticipate somewhat higher interest rates and to regard the recent change in maximum interest rates on time and savings deposits as a step in that direction.

Turning to policy, Mr. Irons said that the Committee continued to face the problem of trying to strike a balance between the domestic situation and the international situation. At present there was also the fact that a Treasury refunding was in the offing. In the absence of strong and clear evidence of need at this time for an appreciably firmer policy, he would come to the same conclusion as at the past two

or three Committee meetings, namely, no change in policy but a shifting toward slightly less ease. He would disregard the past week or 10 days and set up as an objective conditions such as the Committee had been hoping to achieve at the time of the January 9 meeting. If such conditions were achieved, he would be quite satisfied. In short, he would favor maintaining largely an even keel, with no change in policy but with perhaps some slight shift or trend toward a little less ease.

Mr. Irons also said that he had felt for some time that short-term rates, including the bill rate and Federal Funds rate, should be among the key indicators of what the Committee was doing. However, he would not be inclined to set targets that were too precise. A Federal funds rate averaging between 2-1/2 and 3 per cent was about as close a target as it seemed reasonable to suggest. As to the bill rate, he would suggest that it run around a level that would not aggravate the international problem. The objective should be to maintain an availability of reserves consistent with short-term rates that would not create trouble in the international field. As to free reserves, he would suggest a level around $400-$450 million rather than $550-$600 million, because he did not see how short-term rates could be maintained with free reserves as high as during the past 10 days. He would not favor a change in the discount rate at this time. The domestic situation did not call for it, and he was not sure that the international situation was as yet of such a nature as to demand it.

Mr. Ellis reported that in New England consumer buying had remained strong since the Christmas season. On the basis of preliminary information, manufacturing output in December seemed to have risen further. Unemployment continued to fall and employment to rise. In short, business expansion was continuing a moderate, satisfactory pace without evidence of excesses.

Mr. Ellis said a recent survey showed that none of the large banks in Boston or Providence had raised their rate on savings deposits beyond 3 per cent, although they had increased the rate on time deposits. Smaller banks with a high percentage of savings deposits, and under pressure to hold those deposits, had been under more pressure to raise the interest rate beyond 3 per cent. The local competitive situation seemed to control the decisions at those banks.

Turning to policy, Mr. Ellis commented that the economic presentation today seemed to indicate that the rate of expansion was quite satisfactory. It did not appear that the expansion was any longer dependent upon a continued stimulation of credit expansion. It appeared to him, however, that monetary policy was continuing a high degree of stimulation of credit expansion. He agreed with Mr. Johns' analysis. It was of critical importance, of course, not to take action ahead of or during the Treasury refunding that would be seriously disturbing to the market, yet he was concerned about the trend of monetary policy. He liked the first paragraph of the current policy directive, which suggested an intent to

permit further bank credit and monetary expansion. That was appropriate. However, he also liked the phraseology of trending toward slightly less easy monetary conditions. That also was appropriate. The major thrust of policy could be a trend toward slightly less easy monetary conditions with a view to maintaining stable money market conditions. One way of looking at the even keel was to give it the meaning of holding steady, with a stable money market, on a course trending toward less ease. This would rule out a discount rate change in the immediate future.

Mr. Bryan said that he had no strong views on policy. If he had any preference, it would be to continue with no dramatic or overt change of policy. Looking ahead somewhat further than the next few weeks, his inclination was to say that the System ought to take care of seasonal needs, with a small growth factor in reserves added. That growth factor certainly should not be over 3 per cent, and for some time he would prefer a lower rate, because reserves had gone a little beyond the target.

As to the Sixth District, Mr. Bryan said that it seemed to be going along about the same as the nation. Heavy freezes had done some damage to crops, particularly in Florida, but apparently there would be a larger cash flow from the marketing of the smaller citrus crop due to price adjustments.

Mr. Balderston commented that the imminence of the Treasury refunding was basic to the Committee's instructions to the Desk for the next three weeks. This impelled an even-keel policy regardless of views

as to current domestic and international situations. Consequently, it appeared that any detailed examination of the fundamentals of the situation might well be deferred until another meeting of the Committee. However, he would make this observation: with excess capacity here and abroad, there seemed to be no imminent risk of price advances. Furthermore, he sensed some diminution in business optimism. Certainly, there was no speculative ebullience. This was something that had also been noted in the early months of other years. It might be associated with the process of budget-making or with post-mortems after financial reports of the previous year were available. What he was suggesting was that the System's longer-run goals might become more apparent after float had become stabilized and business psychology had emerged from its early-year doubts.

Chairman Martin stated that in his judgment the only development of any significance since the January 9 Committee meeting was the slight diminution of pressure for loans. Generally speaking, the month of January was not a good period in which to make evaluations. However, he was inclined to feel that at this point there was less urgency for tightening, apart from the international situation. That situation was very difficult to evaluate; it was easy to see ghosts that might or might not be there. In any event, the immediate fact of overriding importance was the Treasury refunding. With the first of February as close as it was, it would not be appropriate for the System to upset the money market

by any minor adjustment of policy. If the Committee was convinced that it was necessary to take some major action, that would be one thing. In the circumstances, however, it would be a serious mistake to decide, for example, to diminish the supply of reserves slightly.

Chairman Martin said he thought the consensus today was essentially to maintain an even keel. There might be some question as to what the even keel actually meant; that is, whether it should be related to how things had worked out in the past two weeks or how the Committee had wanted them to work out.

The Chairman noted that the Secretary of the Committee, in consultation with the Economist and the Manager of the System Account, had prepared, for consideration a draft of possible current economic policy directive, the first paragraph of which would be the same as in the directive issued at the meeting on January 9, 1962. The second paragraph would state that operations for the System Open Market Account during the next three weeks should be with a view to maintaining a supply of reserves adequate for credit expansion, while avoiding downward pressure on short-term rates. It would also state that during the period of Treasury financing, emphasis should be placed on maintaining a steady money market.

After copies of the draft had been distributed, Mr. Hayes said he thought there was one fault in it. The language did not give any flavor of eliminating the excessive ease that had occurred inadvertently

during the past two weeks. From a count that he had made, those who spoke today in terms of getting back to the kind of situation that the Committee had hoped to achieve two weeks ago were in the majority. Therefore, he felt that the directive should contain some reflection of that modification.

Mr. Thomas commented, with respect to developments during the past two weeks, that bill rates had declined only quite moderately and were still higher than at the beginning of this year. Some decline in bill rates usually occurs in January following a rise in December. Actually, the Account Manager had done a good job of observing the Committee's directive and in keeping the bill rate up in the face of seasonal factors, a greater than seasonal contraction in the volume of bank credit and required reserves, and a large increase in available reserves due to the maintenance of float at an unusually high level.

Chairman Martin then commented that to him it seemed difficult to write a current policy directive that would take into account accidental occurrences. Further, although there might be some merit in using figures in the directive, he did not think that the Committee could stick to any particular figures. The directive must recognize factors such as the color, tone, and feel of the market. The phraseology Mr. Young had suggested was "a steady money market."

With reference to the comments of Mr. Thomas, Mr. Hayes said that a drift in the three-month bill rate from 2.83 to 2.67 per cent,

while not dramatic, was enough to cause him concern in light of the critical international problem. Further, the proposed current directive, in the form in which it had been drafted, was too general a directive. Except for the last sentence which dealt with maintaining an even keel, it was almost the kind of directive that could have been subscribed to at any time during the past year.

In further discussion, Mr. Balderston said that he thought the Committee, in its experimentation with instructions to the Desk, had moved forward an appreciable distance. He had in mind particularly the difficulty encountered in the past, when preparing the policy record, in recapturing the flavor and tone of Committee meetings. While it was difficult, he recognized, to do a drafting job around the table, he had a feeling that the time spent on the directive at the January 9 meeting would not have to be repeated meeting after meeting, that perhaps the Committee would be able to settle on some reasonable combination of words, and that such wording would then constitute a policy record comprising a satisfactory exposition of the Committee's objectives. He would be content, in this instance, with the wording suggested by Mr. Young. He did not think that the Committee ought to spend long hours at each meeting doing a drafting job, provided the effort placed before it for consideration seemed to represent a reasonably accurate reflection of what the Committee desired.

Mr. Mitchell inquired about the intent of the proposed directive in relation to the seasonal pressure on interest rates, and Mr. Robertson suggested that the intent might be clarified by changing the second paragraph to provide for operations with a view to maintaining a supply of reserves adequate for further expansion of credit and a steady money market during the period of Treasury financing, which would be announced February 1. Mr. Mitchell commented that he was still not clear as to the intent of the directive in relation to interest rates, and Mr. Young replied that it would be the intent to permit usual seasonal variations in credit and in interest rates. Mr. Mitchell said he thought that point should be made clear.

Mr. Swan said it had been his reaction from Mr. Rouse's earlier comments that the Desk was not going to have to worry too much longer about downward seasonal pressure on short-term rates. Mr. Rouse stated that this was correct, that the end of the period of seasonal pressure was now approaching.

Chairman Martin then suggested that the emphasis of the directive be placed on maintaining a steady money market, and Mr. Hayes said he continued to feel strongly that the wording of the proposed directive did not give the flavor of an edging toward a slightly less easy situation, which sentiment was voiced by the Committee at the January 9 meeting. Chairman Martin noted that the degree of ease since that meeting had developed inadvertently, to which he added that he thought the problem

of the directive was principally one of semantics. It was difficult to forecast what was going to happen against a background of what had happened inadvertently in a previous period. This was all part of the problem of maintaining a steady money market.

Mr. King suggested changing the word "avoiding" to "minimizing" in the second paragraph of the proposed directive, his thought being that this might capture some of the flavor that Mr. Hayes was seeking.

Mr. Hayes said he would like to mention, as a further comment, that the proposed last sentence of the directive clearly implied the maintenance of a steady money market during the period of Treasury financing. However, such language would provide no guidance for the period before the period of Treasury financing began. Chairman Martin responded that he thought the consensus was that there should be no change in policy preceding the Treasury announcement. In his opinion, this was all part of the same picture.

Mr. Hayes commented that he thought the consensus was not to depart during the next week from the policy that was intended two weeks ago. In his opinion, the Committee should not instruct the Desk to continue a condition that had occurred inadvertently. Free reserves had been higher than expected; they had averaged over $500 million.

Mr. Mitchell commented that he thought it was the posture of the System, as outsiders saw it, with which the Committee should be concerned. From that standpoint, there might be a tendency to exaggerate

things that were not too important. The Chairman had stated a consensus with which he (Mr. Mitchell) would agree. In fact, he felt that within narrow limits all of the Committee members were of one mind. The Committee did not want anyone to think that the System was making a change of policy between now and the Treasury financing.

There followed a suggestion by Mr. Thomas for a change in the last sentence of the directive that might help to avoid the question raised by Mr. Hayes regarding the appearance of a gap in the instructions to the Desk for the period prior to the announcement of the forthcoming Treasury financing.

Mr. Wayne expressed the view that the suggestions that had been made would meet substantially the points that seemed to be of some concern regarding the draft directive. He went on to say that he would like to reiterate a view he had expressed previously; that is, that the Committee, in preparing a directive, was not engaged so much in writing a precise instruction for the Desk as in writing a statement for the record. The Account Manager understood clearly from the discussion today that the past week was recognized to have been an aberration and that use of the term "even keel" did not carry with it the intent that the Desk should strive to perpetuate the aberration. It was clearly the intent to maintain a steady money market, whereas the past week was unsteady. As he saw it, the important thing was to be sure that the

Committee was writing a directive that would constitute an understandable public record. Use of the word "minimizing" would reflect an opinion that lower short-term rates would be contrary to the public interest and a realization that the past week was an aberration.

Chairman Martin then asked the Secretary to read the proposed directive, in form that would reflect suggestions made thus far. After the Secretary had done so, Chairman Martin turned to Messrs. Hayes and Rouse and inquired whether such a directive would be reasonably clear. Mr. Hayes and Mr. Rouse indicated that they thought it would be all right.

The Chairman next inquired whether there were those who wished to record a dissent from the adoption of such a directive. Mr. Hayes said that his reservations were so much a matter of degree that he would not want to record a formal dissent. No other member of the Committee indicated that he wished to record a dissent.

> Accordingly, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions for the System Open Market Account in accordance with the following current economic policy directive:

> It continues to be the current policy of the Committee to permit further bank credit and monetary expansion so as to promote fuller utilization of the economy's resources, together with monetary conditions consistent with the needs of an expanding domestic economy, taking into account this country's adverse balance of payments as well as the Treasury financing calendar.
>
> To implement this policy, operations for the System Open Market Account during the next three weeks shall be conducted

with a view to maintaining a supply of reserves adequate for further credit expansion, while minimizing downward pressures on short-term interest rates. In view of the imminence of Treasury financing, emphasis shall be placed on maintaining a steady money market.

Votes for this action: Messrs. Martin, Hayes, Balderston, Irons, King, Mills, Mitchell, Robertson, Shepardson, Swan, Wayne, and Fulton. Votes against this action: None.

No changes were suggested in the continuing authority directive to the Federal Reserve Bank of New York that had been adopted on December 19, 1961.

It was understood that the next meeting of the Federal Open Market Committee would be held on Tuesday, February 13, 1962.

All of those present except the members and alternate members of the Committee, the other Reserve Bank Presidents, and Mr. Young then withdrew from the meeting.

At this session, discussion was concerned with the next steps for consideration of the proposal before the Committee for the System Open Market Account to engage in foreign exchange operations and to hold at different times varying amounts of convertible foreign currencies. Chairman Martin reported on his consultations about the subject with the Chairmen of Senate and House Banking and Currency Committees and commented briefly on the general problem of obtaining legislation that would clarify the Committee's authority to conduct foreign currency operations.

In the discussion that followed, differing viewpoints were expressed as to the potential contribution that System foreign

currency operations might make in fulfilling its responsibilities for a sound dollar domestically and internationally, especially in view of persisting deficits in the U. S. balance of international payments. There was also reference in the discussion to the legal opinions rendered by the Committee's General Counsel and the General Counsel of Treasury (the latter having the concurrence of the Attorney General) to the effect that the System's existing statutory authority, although in some respects limiting, did provide a general sanction for Committee operations of the kind in question.

In the light of the Chairman's report and the roundtable comment, a majority of the Committee were favorably disposed towards operations on an experimental basis. Several members mentioned that the Committee would presumably review critically any operations undertaken, and that the Committee might later decide to discontinue them if constructive benefits appeared not to have been achieved.

In bringing the discussion to a head, it was moved by Mr. Balderston and seconded by Mr. Hayes that the Committee go on record at this session as favoring in principle the Committee's initiation on an experimental basis of a program of foreign currency operations; that Mr. Young, the Committee's Secretary, and Mr. Coombs, Vice President in charge of foreign operations of the New York

Federal Reserve Bank, be authorized to explore for the Committee with the Treasury needed guidelines for actual operations, drawing on experience that the Stabilization Fund had had in recent months, and to develop plans for effective working relationships in the foreign exchange field with the Stabilization Fund; and further that Chairman Martin be authorized to refer to this development in his statement and testimony before the Joint Economic Committee scheduled for January 30, 1962. Discussion having reached the point of question, Chairman Martin called for a vote and the motion was carried.

> Votes for the motion: Messrs. Martin, Hayes, Balderston, Irons, King, Mills, Shepardson, Swan, Wayne, and Fulton. Votes against the motion: Messrs. Robertson and Mitchell.
>
> Messrs. Bopp, Clay, Deming, Ellis, Johns, and Scanlon indicated that if they were presently members of the Committee, they would have voted for the motion. Mr. Bryan, also not a present member, said that he would have voted aye on the motion because he believed that operations in foreign currencies were in principle a proper function of a central bank; but he added that he was opposed to the Committee's initiating such operations until statistics for the latest available twelve-month period showed the United States to be operating with a balance-of-payments surplus, not a balance-of-payments deficit.

In opposing the motion, Mr. Mitchell felt he was not prepared, on the basis of the information at his disposal, to see the Committee take this step at this time. He believed that an undertaking of this importance to the System needed analysis by outside experts as well

as public discussion before any Committee action and that the Committee would be better equipped to proceed with a program of foreign currency operations if its consideration of the matter had been preceded by legislative clarification of its statutory authority to acquire and hold foreign currency assets.

Mr. Robertson voted against the motion for reasons set forth in more detail in the memorandum he presented to the Committee at its meeting on December 5 and included in the minutes of that meeting.

The meeting then adjourned.

Secretary