A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, March 27, 1962, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston
Mr. Bryan
Mr. Ellis
Mr. Mills
Mr. Mitchell
Mr. Robertson
Mr. Shepardson
Mr. Clay, Alternate for Mr. Deming
Mr. Scanlon, Alternate for Mr. Fulton
Mr. Treiber, Alternate for Mr. Hayes

Messrs. Bopp and Irons, Alternate Members of the Federal Open Market Committee

Messrs. Wayne and Swan, Presidents of the Federal Reserve Banks of Richmond and San Francisco, respectively

Mr. Young, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Thomas, Economist
Messrs. Brandt, Furth, Garvy, Hostetler, Noyes, Parsons, and Willis, Associate Economists
Mr. Coombs, Special Manager for foreign currency operations, System Open Market Account

Mr. Molony, Assistant to the Board of Governors
Mr. Cardon, Legislative Counsel, Board of Governors
Messrs. Holland, Koch, and Williams, Advisers, Division of Research and Statistics, 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

Messrs. Francis and Hemmings, First Vice Presidents of the Federal Reserve Banks of St. Louis and San Francisco, respectively
Messrs. Eastburn, Ratchford, Baughman, Jones, Tow, and Coldwell, Vice Presidents of the Federal Reserve Banks of Philadelphia, Richmond, Chicago, St. Louis, Kansas City, and Dallas, respectively
Mr. Stone, Assistant Vice President, Federal Reserve Bank of New York
Mr. Sternlight, Manager, Securities Department, Federal Reserve Bank of New York

Upon motion duly made and seconded, the minutes of the meeting of the Federal Open Market Committee held on February 13, 1962, were approved.

Before this meeting there had been distributed to the members of the Committee a report on open market operations in U. S. Government securities covering the period March 6 through March 21, 1962, and a supplementary report covering the period March 22 through March 26, 1962. Copies of both reports have been placed in the files of the Committee.

In supplementation of the written reports, Mr. Stone commented as follows:

> The money market has been generally comfortable since the last meeting. Federal funds have moved between 2-1/2 and 3 per cent, with the effective rate typically at 2-3/4 or 3 per cent. The mid-March tax and dividend dates passed without difficulty. As customarily happens, several hundred million dollars of dealer financing was shifted from corporations to banks around the tax date, but the banks were readily able to meet this financing need. Indeed, Federal funds were below the discount rate on March 15, when the bulk of the shift occurred, and Treasury bill rates, after having remained unchanged during the morning, moved lower later in the day.

In recent days we have begun to see some of the effects of the stockpiling of bills in Chicago in advance of the April 1 Cook County tax date, and that situation will continue to be a factor of some importance over the next week or two.

The entire Government securities market has continued to show a good deal of strength, and it may be worthwhile to cite a few comparisons to emphasize the extent of this strength. Rates on three-month Treasury bills, for example, are about where they were in early February despite the fact that since that time the Treasury has added a total of $800 million to the supply of three-month bills in weekly auctions. Rates on six-month bills are somewhat lower than in early February, and indeed are lower than they were three weeks ago, just before the Treasury announced the auction of $1.8 billion September tax bills--which are virtually equivalent to new six-month bills since they mature at about the same time as the six-month issue auctioned last week. I should add that the strength of the short-term market has been evident throughout the period. Hence it cannot be explained wholly in terms of reinvestment demand out of the March tax bills that matured last week, or in terms of expectations of that demand.

Intermediate- and longer-term Treasury issues have undergone yield declines ranging to more than 20 basis points since the last meeting and to more than 40 basis points since early February. Yields on most long-term issues are at 4 per cent or slightly under, while 10-year issues yield about 3.80 per cent. To cite another benchmark, the 4 per cent notes issued in the recent Treasury refunding are now bid to yield 3.55 per cent. Corporate and municipal obligations have also undergone sharp changes in yield, although in the past week or two investors--perhaps viewing the recent buildup in the calendar of new issues--have shown resistance to some new offerings on which the underwriters put a rather high price.

Thereupon, upon motion duly made and seconded, the open market transactions in Government securities during the period March 6 through March 26, 1962, were approved, ratified, and confirmed.

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

The three weeks since the last meeting have produced quite an array of data for February, and a little inconclusive evidence with respect to the current month. Even with only a few clues for March, however, technicians in and outside the Government are firming up estimates of first quarter GNP at figures a little below $550 billion--$548 seems to be the most popular figure at the moment.

I do not mean to suggest by this that the most recent information is all bearish. In fact, most indicators picked up considerably from January to February, and department store and automobile sales appear to have improved further in recent weeks.

Rather than run through the levels and changes revealed by the latest data, it seemed to me that it might be more useful today to try to place the current rate of expansion in perspective. At the moment the perplexing question seems to be not so much the direction in which the economy is moving, or its rate of progress, but rather whether or not that rate of progress is sufficient. So far as I am aware, no one contends that the current rate is excessive, and few that there is any likelihood of over-rapid expansion in the period just ahead.

A lag or sluggishness appears, of course, in relation to most goals or projections for 1962 performance, made in the late fall and early winter. As one would expect, the most widely used yardstick for evaluating our progress has been the $570 billion annual GNP mentioned in the President's Budget Message and Economic Report. This involved a year-to-year increase of almost 10 per cent, and a fourth quarter to fourth quarter rise of about 7-1/2 per cent. It was argued that these rates, which were admittedly high for the second year after an upturn, were not unrealistic because of the substantial volume of idle human and physical resources, the absence of inflationary pressures, and the generally unsaturated market conditions that prevailed. Against this background, first quarter performance has been disappointing at best.

It should be noted at this point that if an important part of the shortfall could reasonably be attributed to a lesser rate of inventory accumulation than was anticipated, there would be less cause for concern, but this does not appear to be the case. The current reduced estimates of first quarter GNP provide for about the same amount of inventory accumulation as the original projections. Hence the entire difference is associated with a lesser rate of final takings of goods and services, particularly of housing, consumer durable goods, and fixed capital.

It may be properly pointed out, however, that the $570 billion goal for 1962, if not unrealistic, was at least highly optimistic and that some shortfall should not be regarded as a cause for alarm. How might one go about setting a minimum limit for adequate performance? Perhaps we can approach this by looking first at the amount of growth in GNP in current dollars it would take simply to hold real per capita GNP constant. A conservative estimate is $4 billion annual rate per quarter. Thus, starting from 542 in the fourth quarter of 1961, an average for 1962 of about 552, and a fourth quarter of 558 or so, would be necessary to maintain real per capita GNP at the same level. A very modest allowance for growth necessary to maintain momentum would carry the average to around $560 billion.

The complex interrelationships that enter into the performance of the American economy can never be satisfactorily summarized in a single figure, but this crude analysis does suggest that one should search for the lower limit of acceptable economic performance in 1962 somewhere above a $560 billion annual average GNP, based on his judgment of what constitutes a tolerable rate of unemployment, an adequate level of profits, an acceptable volume of new investment, and other considerations.

The first quarter level of GNP may well have been depressed by special nonrecurring factors, and natural forces may lead to a more rapid rate of expansion as spring progresses. The fact remains, however, that in this quarter we have been running very close to the lower limit of sustainable expansion and that if some improvement does not come in the next month or so, attention must be focused on ways and means of maintaining expansion through public policies of one kind or another.

Mr. Furth presented the following statement with respect to the U. S. balance of payments and related matters:

The U. S. balance of payments for the current quarter will show the smallest deficit since the first quarter of 1961, but will still be far from equilibrium.

According to the data for January and February and preliminary data for the first three weeks of March, the deficit for the quarter may be estimated at $400 million, only slightly more than in the first quarter of 1961 and less than one-third of the deficit for the last quarter of 1961.

This development is particularly interesting because our trade balance seems to have deteriorated rather than improved. If the trade figures for January (the only ones as yet available) are taken as an indication for the entire quarter, our seasonally adjusted trade surplus was about $200 million less than in the last quarter of 1961 and more than $600 million less than in the first quarter of 1961, when our imports were at a cyclical low.

The greatest improvement apparently occurred in the outflow of short-term capital, including unrecorded transactions. Part of this improvement represented merely a technical reversal of flows associated with year-end window dressing. But it is encouraging to note that the bulk of the recorded short-term capital outflow in the current quarter apparently reflected only a further expansion of bank and trade credits to countries that regularly depend upon the financial resources of the New York market.

It is less encouraging to note there has been quite recently a considerable shift from foreign private to foreign official dollar holdings, probably connected in part with the shift of funds from continental European currencies or Euro-dollars into sterling. Commercial banks in the United Kingdom, in conformity to official advice, transfer dollar accretions to the Bank of England. This means an increased danger of drains on the U. S. gold stock.

Our net gold drain during the quarter amounted to $300 million, including two sales to be executed later this week; half of this amount, however, may be considered to be offset by the increase in our holdings of foreign convertible currencies. If the accumulation of foreign official dollar holdings continues, it will lead to further gold drains, unless the Treasury prefers the humiliation of begging our friends not to convert their dollar holdings into gold in order to uphold the prestige of the dollar.

The recent capital flow to London can only partly, if at all, be explained by interest-rate differentials between New York and London. On a covered basis, the interest-rate differential between these places, as measured by the difference in Treasury bill rates minus the forward discount of the pound sterling, has been in favor of New York for quite some time. Recently the differential has reached three-eighths of one per cent, which might be thought sufficient to cause some flows to New York.

Actually, however, comparison based on Treasury bill rates can be misleading because the London money market offers higher rates on certain investments that are, rightly or wrongly, considered by some investors the equivalent of prime investments in New York, especially deposits with local authorities and with finance companies. On a covered basis, these rates still show an advantage of nearly one per cent over investments in the New York money market. Euro-dollar rates in London also are still quoted at 3-1/2 per cent, at least 1/2 per cent higher than returns on prime money market paper in New York.

This latter relationship can hardly be changed by movements in the New York money market rates. According to oral information, some London financial institutions are willing to operate in the Euro-dollar market with a margin of only 1/16 of 1 per cent, and therefore will always be able to out-compete New York banks for international deposits.

As a result of the reduction in the U. K. bank rate, the deposit rates offered by British local authorities and financial companies may be significantly reduced in the near future. But it remains to be seen whether funds hitherto attracted into these deposits will flow to New York or rather seek investment in Euro-dollars or continental European currencies. The second probability seems high, since most of the funds apparently have come from the Euro-dollar market or directly from continental European holders.

Gold and exchange markets have not shown surprising developments recently. The London gold price was yesterday at exactly the same level as three weeks ago. A small price increase in the middle of March, apparently caused by gold purchases by a small central bank that does not participate in the widely publicized gold pool, was immediately reversed when these purchases ceased.

The recent decline in the sterling rate was decisively influenced by the latest decline in U. K. bank rate. The improved position of the dollar in London should therefore not be attributed to developments in the United States. In fact, the dollar lost some ground in the two countries in which it was strong three weeks ago, Germany and the Netherlands. Allegedly, this change, too, had more to do with domestic events in those countries than with the international position of the United States. Both Germany and the Netherlands have been experiencing temporarily tightened monetary conditions, and the banks seem to have converted some of their foreign exchange holdings into local currency to meet domestic demands.

The dollar improved somewhat in Zurich. Although the decline in the Swiss franc rate has given rise to much comment, the Swiss franc is still quoted well above parity against the dollar.

To sum up: we must be grateful for the reversal of the deterioration in our balance of payments, which started in mid-1961. But we have at best reached a half-way station between the critical position in which we found ourselves three months ago and a position which would represent imminent prospects of sustainable equilibrium.

Mr. Thomas presented the following statement with respect to credit developments:

Credit markets have reflected the lull in the pace of economic expansion. Bond prices have risen and some interest rates have tended to decline in a period when the money market was relatively tight because of seasonal credit and liquidity needs. Bank loan expansion has been large but not exceptionally so for the March tax period. Banks also increased their holdings of "other" securities, but showed unusually large reductions in holdings of Government securities. As a consequence, total bank credit expansion was relatively small for this period. Time deposits at banks continued to increase, but demand deposits may have declined some after adjustment for usual seasonal variations. Reserve availability did not increase, and free reserves on the average were relatively lower than in February.

Rising prices of Treasury bonds brought average yields on long-term issues down to below 4 per cent for the first time since November. Average yields on 3- to 5-year issues declined below 3-1/2 per cent--the lowest since last May. Treasury bill yields also declined from mid-February levels but remained close to or above the highest levels for 1961, reached at the end of the year. Rates on Federal funds and on bank loans to dealers have remained at or only slightly below 3 per cent.

Strength in Government securities has occurred despite reductions in holdings by the banking system and an increase in bill offerings by the Treasury, and at a time when corporations might be expected to reduce holdings. Holdings for foreign accounts at the Federal Reserve have increased moderately, and it is reported that some of the proceeds of recent new issues of securities in capital markets are being invested in Government securities. Of most importance, there have been very large increases in the positions of dealers in Government securities in recent weeks. Dealers' positions in bills are comparable to high levels reached at times last fall, and holdings of coupon issues maturing in less than a year are relatively large for a period not including a Treasury financing operation in this area. Holdings of longer-term issues continue to comprise only a minor portion of dealers' positions.

Corporate and State and local government securities, which for some time had shown more strength than U. S. Treasury issues, have continued strong, with small further declines in yields. Public offerings of securities to obtain new capital have been in lighter volume during March than in February, and dealers have been able to reduce inventories of unsold issues. Plans for new issues, however, are again building up, and April offerings may be somewhat larger. Prices of common stocks have shown little change in recent weeks, with trading activity tending to decline.

Banking statistics are difficult to interpret at this time, because a difference of one day can cause very large shifts in liquid assets and current liabilities of businesses and hence in bank loans, investments, and deposits. On the basis of partial figures for city banks for March 21, expansion in loans to businesses and to finance companies over the tax period appears to be within the range of normal variations for the past seven years. This increase has been offset to a considerable extent, however, by unusually large decreases in bank loans on securities and in holdings of Government securities. As a consequence, although holdings of other securities increased by a substantial amount, the increase in total credit supplied by city banks over the tax period was relatively small. Data for the first half of March indicate little change in total credit at nonreporting banks, compared with an increase in the same period last year.

Time deposits continued to increase at city banks in the first three weeks of March at a faster pace than in other years, but the rate of increase slowed down somewhat compared with January and February. Data available for other savings institutions show a continued substantial inflow of net savings during February. Available data indicate the likelihood of a decrease in demand deposits, after adjustment for seasonal variations, during the first three weeks of March. Demand deposits adjusted at all commercial banks are about 2 per cent larger than a year ago, while time deposits are close to 15 per cent larger. Total deposits increased by about 7 per cent.

Recent weeks seem to have been another period, such as have occurred at times during the past year, when restraint on supplying reserves in order to prevent a decline in bill rates has been accompanied by absence of expansion in the money supply. Reflecting the increase in time deposits, required reserves have been slightly larger than in February, and member banks have found it necessary to borrow somewhat more often to maintain their reserve positions.

Again this raises the question as to how much time deposits might substitute for demand deposits in supporting an expanding economy. Won't some expansion in demand deposits be essential? A collateral question is whether saving in general is being unduly encouraged in view of the continued slack in the utilization of available resources in the economy.

For those who believe that the function of monetary policy is to regulate aggregate demand--consumption and investment--or for those who would use monetary policy to stimulate investment in times of slack, the present situation would clearly call for a somewhat more expansionary policy. This approach, however, would be questioned by those who suspect that the slowness of economic advance that has been characteristic of this country during recent years is due to structural problems that cannot be remedied--or might even be worsened, particularly in view of our international situation--by easy credit or injections of fiscal stimulants. With respect to the possible contribution of monetary policy, this Committee will have to continue to seek an appropriate stance between these two extremes.

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

Business activity is expanding less rapidly than was expected a few months ago, and less rapidly than in the comparable stages of the two previous business cycles. Although it is possible that the current slowdown in the advance may portend a downturn in general business activity sometime later in the year, it appears more likely that the chief issue over the rest of the year will be the pace of the advance rather than the problem of recession.

Employment has risen less rapidly in the current business expansion than in either of the two previous expansions. The lag probably reflects not only the less rapid advance in economic activity but also a greater increase in productivity in the current period. The momentum of economic expansion is especially important because of the continuing high rate of unemployment and the possibility that the labor force may expand almost as rapidly as employment increases during the rest of the year.

While personal income has been rising, consumers have been conservative in their spending. While business outlays for plant and equipment have been rising, the rise has not been rapid. The housing picture is not strong. The inventory outlook is heavily dependent upon shifting expectations with regard to the outcome of the present wage negotiations in the steel industry. It is hard to see what factor may spark an upsurge in economic activity. Yet the cumulative effect of greater activity in several areas could be substantial.

Prices continue to be stable. There are no signs of inflationary pressures on the demand side. On the cost side, the terms of settlement of the wage negotiations in the steel industry will be very important.

Bank credit has expanded satisfactorily in recent weeks, due more to increased loans than to increased investments; investment maturities have been extended to improve earnings. Time deposits continue to show substantial gains, but not as large as in January.

New offerings of securities by business concerns and by State and local governments have been substantial this year; in most cases they have been well received. Further large security offerings appear to be in prospect, stimulated to some extent by comparatively low long-term market rates and other conditions favorable to the sale of securities.

The ability of business concerns and State and local governments to borrow readily in the capital market, the relatively good liquidity position of the commercial banks and their consequent ability to make loans, and the liquidity and potential purchasing power of consumers all indicate no need for any increase in credit ease for domestic purposes.

Looking at the international situation, our adverse balance of payments continues to be a severe problem. While the figures for the first quarter of 1962 are much better, largely for seasonal reasons, than the figures for the last quarter of 1961, estimates for February and the first three weeks in March appear to indicate that the over-all first quarter deficit will not be much different than that for the first quarter of 1961. The outflow of gold has increased recently, and more gold losses are likely.

While the recent action of the Bank of England in reducing the bank rate should be helpful to the dollar, there are still rate advantages in foreign financial markets.

As for appropriate monetary policy, it seems to me that we should continue about the same policy we have been pursuing in recent weeks. This would mean having the three-month Treasury bill rate at or about 2-3/4 per cent, with the rate on Federal funds at or not far from the discount rate at most times. In order to avoid downward pressure on the bill rate it may be desirable to buy longer term securities against the sale of

Treasury bills or other short-term securities. There is plenty of evidence, including the strength throughout the market for fixed income securities, that an abundant supply of credit is available. Therefore, I think that the free reserve figure may properly be de-emphasized as a policy criterion, and a somewhat lower level of free reserves may be permitted to develop if such a level is needed to achieve the rate objective.

I see no need for any substantial change in the current economic policy directive. Nor would I favor any change in the discount rate at this time, unless it were part of a "package" or group of actions to be taken by our Government on several fronts to focus attention on, and help solve, our balance-of-payments problem.

Mr. Ellis reported that business activity in New England showed mixed patterns, without apparent vigor. The mixture of trends showed up, for example, in business spending. Nonresidential building contract awards in February were weak in comparison with preceding months, while the results of a survey of manufacturers' intentions indicated a 4 per cent rise in capital expenditures over 1961. Consumer spending also was showing mixed patterns. After adjustment for the different dates of Easter, department store sales were 4 per cent ahead of 1961, but in February new car financing by New England banks showed a sharp decline of one-third from January. As to production, the New England index contained seasonal factors that called for a gain from January to February of about 3 per cent, but preliminary estimates indicated that the index was falling short of the normal pattern. Insured unemployment showed little change in February, but two labor market areas were added to the Group E classification, making a total of four, whereas there were none in that classification last fall.

Mr. Ellis said that New England banks had experienced about the normal tax borrowing increase. Demand deposits leveled off in March and loan-deposit ratios were rising, thus continuing the trend characteristic of the first quarter. A reduction in holdings of Government securities was continuing.

Turning to policy, Mr. Ellis said the lack of vigor of demand suggested that the hesitation in the pace of business activity was continuing. In the present circumstances, it seemed appropriate to continue the current policy of stimulating credit expansion. On the one hand, there was no real evidence to indicate that present policy was too stimulating; on the other hand, there was no sound reason to believe that present policy was retarding economic expansion. Recent free reserve figures below $400 million seemed to have been accepted as an aberration, and they had not reflected themselves in a strengthening of short-term rates. In fact, the tendency had been for short-term rates to decline. Dealers seemed able to finance their positions satisfactorily even with holdings at peak levels, indicating that there was plenty of money available.

In summary, Mr. Ellis felt it desirable to maintain the present course of monetary policy. If the Committee wanted to recognize the continued hesitation in the pace of business activity, an indicative change could be made in the first paragraph of the current economic policy directive. It would not seem appropriate to change the discount rate at this time.

Mr. Irons reported that the most recent statistics on Eleventh District conditions were favorable. While the pace of activity may not have been completely up to earlier expectations, nevertheless there had been improvement. Retail trade statistics showed an advance from a year ago, employment was generally satisfactory in the major labor market areas, and the District industrial production index showed an increase of about one percentage point in the latest period. Construction activity was very good, especially in major cities such as Houston and Dallas, and the agricultural situation was favorable.

On the financial side, Mr. Irons said that District banks were in a comfortable position. Borrowing from the Reserve Bank was running consistently under $1 million a day. During the past three-week period there had been some increase in loans and in deposits, including a strong increase in time deposits.

The attitude of businessmen and others in the District was generally good; they apparently were satisfied with the way conditions were developing. There seemed to be no real problems at the moment except in the oil industry, where the problem was not cyclical in nature.

Mr. Irons indicated that he was not too disturbed about the rate of economic growth nationally. In his opinion, credit had been sufficiently easy to make it possible to meet any valid requirements. Therefore, he would favor a continuation of the policy of the past three weeks, recognizing that there were some gyrations during that period. This would envisage a bill rate around 2-3/4 per cent, with Federal funds in the area of 2-3/4 to 3 per cent. While he would not be too much concerned about the level of free reserves, he would contemplate a level somewhere around $350 to $400 million. Altogether, this would represent continuation of a policy of adequate ease, at the same time giving consideration to the rate problem in the light of international factors.

Mr. Swan reported that the situation was rather favorable in the Twelfth District. On a seasonally adjusted basis, the unemployment rate in the Pacific Coast States remained at 5.6 per cent in February despite some lay-offs because of heavy rains that especially affected construction employment and also housing starts. Department store sales for the four weeks ended March 17 showed a gain of 5 per cent, in sharp contrast to the 2 per cent decline for the country as a whole.

The rather substantial time deposit growth at Twelfth District banks was continuing, and there had been announcements by savings and loan associations in southern California of a dividend rate increase from 4.6 to 4.75 per cent, effective the first of April. How long associations in northern California would hold the line at 4.6 per cent was a matter of conjecture. At the same time, the desire of banks and savings institutions for mortgage loans appeared to have had the effect of easing both mortgage rates and terms somewhat. Real estate loans showed the largest increase of any loan category at weekly reporting banks for the three weeks ended March 14, just as they did in the first three weeks of

February. Commercial and industrial loans showed only a modest increase through March 14, and at that time the banks were not anticipating any heavy borrowing over the tax date. Banks had been in a fairly comfortable reserve position over the past several weeks and had been net sellers of Federal funds, which was a reversal of the situation that prevailed in the latter part of 1961. Borrowing from the Reserve Bank was nominal.

It seemed fairly clear, Mr. Swan said, that there was no great vigor in the domestic situation at this time. Certainly there were no significant price pressures, and there was still unutilized capacity in terms of both men and machines. Also, it appeared that developments in the international situation were at least temporarily in a more favorable direction. This seemed, therefore, to be a time when a little less weight could be given to international considerations in relation to domestic. Further, there were no inflationary winds to lean against at present. Accordingly, he would favor continuation of a policy of monetary ease. While he would be satisfied with the current policy directive as it stood, he did not feel that the recent reduction in free reserve levels, with some increase in total borrowings of member banks, was entirely consistent with the economic situation or with the directive. He would prefer to see free reserves around $450 million, and if the bill rate shaded a little below 2-3/4 per cent he would not be particularly concerned. He would not change the discount rate at this time.

Mr. Scanlon reported that economic information in the Seventh District showed a mixed picture. However, a number of points could be made with some certainty. First, it was now clear that some of the weakness early in the year was a reflection of bad weather conditions. Second, despite some revival from January, the rate of business improvement in the Midwest was slow. Third, there had been a pronounced rise in business loan demand since the end of January, although it was as yet too early to determine whether this was more than a temporary development.

It now appeared, Mr. Scanlon said, that the steel operating rate, nationally, would be slightly lower in March than in February. In the Chicago area, however, the figures would be about even, while in the Detroit area there might be a slight increase. One producer had indicated that present order trends indicate that steel output will decline appreciably in April. There had been no rush of orders following the break in wage negotiations, and users of steel were achieving a satisfactory inventory position faster than sales representatives had anticipated. Midwest firms seemed to be handling more defense work, as reflected in contract awards, the gain having been much larger than for the nation as a whole. Department store sales in the latest week were relatively strong, particularly when allowance was made for the date of Easter.

As late as last Friday, Mr. Scanlon said, he had been prepared to say at this meeting that the outlook for automobile sales for the calendar year was rather clearly around 6.5 million, including imports, rather than the 7 million total still being quoted publicly. However, figures for the second ten days of March showed a sales rate of 22,500 cars per selling day, ten per cent higher than any mid-March period since 1955.

District banks were complaining of a slack business loan demand, but outstanding loans at weekly reporting banks in the District were about $130 million higher than a year earlier, this increase being somewhat larger than for the twelve months following the 1958 trough of recession. Business loan demand appeared to have been quite strong recently, although analysis was complicated by the distortions caused by the forthcoming Cook County personal property tax date.

Mr. Scanlon noted that in view of the relatively slow growth of business activity thus far in 1962, it appeared that projections for the calendar year should be revised downward moderately. If any change in System policy was in order--and he rather doubted it--he would feel that the change should be in the direction of a slightly greater degree of ease rather than the reverse. As far as free reserves were concerned, he would be inclined to favor slightly higher levels than in the past few weeks. He saw no need for a change in the current policy directive or in the discount rate.

Mr. Clay commented that the data on the recent performance of the domestic economy understandably had met with mixed reactions. The improvement over January's results was encouraging. On the other hand, the current performance of the economy generally did not appear to be very vigorous. Whether substantial expansion of economic activity, such as would be necessary for satisfactory employment and output, was to take place in the months ahead seemed to depend primarily on two sectors. One was consumer spending, notably on durable goods. The other was business capital outlays. Consumer spending would need to improve very materially in the weeks ahead if it was to make a major contribution, and it was commonly recognized that the increase of 8 per cent in the projected level of business capital outlays for 1962 fell short of what was needed from that area. The actual results remained to be seen, but there was reason to question whether actual outlays would exceed projected outlays in the current state of the economy nearly so readily as in the earlier business upswings following World War II, when demands for goods were strong and capacity was more limited.

These reflections took on added importance when recognition was given to the fact that the present unemployment ratio was derived on the basis of a civilian labor force that had not grown over the past year. That situation was not likely to continue. Rather, it should be expected that there would be substantial additions to the labor force that would need to be absorbed.

The justification of a monetary policy designed to stimulate economic expansion was readily apparent, Mr. Clay said. Money and capital markets already had responded to business and financial news by adjusting interest rates downward. This easing in the cost of credit and the implied improvement in its availability afforded the Committee an opportunity to await further developments before deciding whether a significant shift of policy was required. The weeks immediately ahead should clarify the performance of the economy, particularly that of the consumer. The Committee would then be in a better position to judge, on the basis of the pattern of economic activity and the performance of the money and capital markets, whether any modification should be made in the policy it had been pursuing.

Mr. Clay commented that the Committee would want to maintain an appropriate relationship between the Treasury bill rate and comparable interest rates abroad. This presumably would fall within the range previously determined by the Committee. At present, it would not appear necessary to push the Treasury bill rate to the upper limits of that range, however. In any case, the rate should not be maintained at a level higher than necessary for international flow-of-funds considerations.

In keeping with the views he had expressed, Mr. Clay recommended no change in the Reserve Bank discount rate. He went on to say that the possibility of needing to do more toward encouraging economic expansion, rather than less, underscored the dilemma of the System relative to the needs of the domestic economy and the international balance-of-payments problem. Further action to stimulate domestic activity inevitably would involve a downward movement in the level of interest rates, and such developments might accentuate the problem of dealing with the international flow of funds. This potentially difficult and awkward situation placed a high priority on efforts to comprehend fully and to solve the basic issues that were involved in the international balance-of-payments problem. It was to be hoped that every reasonable effort to deal with these basic issues was being made by those authorities who were in a position to do so. It would be interesting and helpful, he suggested, if the Open Market Committee could be given a comprehensive briefing, beyond the scope of a public statement, as to what was being done to deal with this problem.

Mr. Wayne reported that Fifth District business had continued to show only slight improvement, as had been the case for several months. This trend was evident in the statistics for February, when seasonally adjusted bank debits, nonfarm employment, and manufacturing man-hours advanced. Manufacturers responding to the Reserve Bank's recent survey reported new orders, shipments, employment, and hours generally stable or rising. Retailers said that trade remained strong except when adversely affected by the weather. Thus, restrained optimism still seemed the dominant sentiment. A recent storm had caused extensive damage to property along the coast, and this was expected to give some additional impetus to employment in the affected areas.

Business loans at District weekly reporting banks continued considerably weaker than for the nation as a whole. These loans had declined more so far this year than in any other recent year. Real estate loans, however, had been a little stronger than usual, and all other loans had conformed quite closely to the normal pattern. District banks were net sellers of Federal funds.

Turning to policy considerations, Mr. Wayne said he believed it must be recognized, as a major consideration, that the rate of business expansion since the first of the year had been less than satisfactory. While some major indicators had moved up recently, others had moved sideways or downward. There was a possibility that activity generally might top out uncomfortably near the present level and produce an abortive or incomplete upswing. While he would not favor any attempt to force-feed the economy with excessive amounts of credit, it was just as important not to take any steps that might impede further expansion. There might now be a little more leeway in shaping policy to meet the needs of the domestic economy since international pressures seemed to have abated somewhat, at least for the present. As a long-range goal, he would suggest continuing the formula that allowed for a 4 per cent growth in total reserves against private deposits, seasonally adjusted. As an immediate goal, he would favor keeping free reserves between $400 and $450 million rather than below that range. He would not like to see the three-month bill rate any higher than it had been recently; if it should decline by ten or fifteen basis point, he would not be concerned. He believed this goal could be accomplished under the current economic policy directive and therefore would like to see that directive renewed. He would not favor any change in the discount rate.

Mr. Mills said that in reviewing money market and other financial developments for many months past, he concluded that Federal Reserve System credit policy, by moving in a rut, had fallen into a trap, to which the attention of the Committee must be directed. For this purpose, he presented the following statement:

> In following a policy that has produced a high level of free reserves over a long period of time, the Federal Open Market Committee committed a serious blunder that is now showing up in a series of problems that will be difficult to solve and could have been avoided if the objectives of policy had been confined to a fundamental responsibility of assuring adequate credit availability. In oversupplying reserves, and in that process forcing excessive liquidity into the economy, the foundation has been laid for the development of future inflationary difficulties whose correction can demand a reversal of current monetary policy to one involving an undesirable degree of credit restraint.
>
> However, the most unfortunate aspect of current monetary policy is that the declared purpose of holding the interest yield on U. S. Treasury bills at a level intended to deter the transfer of United States funds abroad has resulted in pegging Treasury bill rates at a set floor. As should have been learned from past experience, a pegging operation in due course gives market operators confidence in the permanence of an artificially anchored and maintained interest rate structure that encourages their relatively riskless speculation in U. S. Government securities by "playing" a flattening interest rate curve extending from the longer maturities back down to the pegged Treasury bill sector of the list. Evidence of this kind of development can be seen in the recent rapid rise and latterly abrupt fall in the prices of U. S. Government securities and the speculative growth in the positions of U. S. Government securities dealers. To the extent that dealer positions become vulnerable, the market will be exposed to a subsequent sharp break that would be harmful both to the interests of the Federal Reserve System and of the Treasury. The successive reductions in the discount rate of the Bank of England have aggravated the situation still more, in that corrective Federal Reserve System actions taken now to absorb superfluous reserves would give the appearance of a radical policy change toward credit restraint at a time when the closer alignment of U. S. Treasury and United Kingdom

Treasury bill yields that has occurred suggests less need for a defensive level of U. S. Treasury bill rates.

The embarrassing policy predicaments that have been brought on by fostering a continuously high level of free reserves which, in turn, developed into artificially pegging U. S. Treasury bill rates, could have been avoided by policy objectives geared solely to providing adequate credit availability, in which event a somewhat firmer interest rate structure would have automatically held U. S. Treasury bill rates in a defensive balance-of-payments posture and any assumed need of a pegging operation would have been obviated, while at the same time sufficient scope for the expansion of bank credit would have been permitted.

A goal setting a predetermined volume of reserves as a measure for increasing the money supply in accordance with growth in the gross national product may be partly to blame for the present difficulties. This policy not only shares responsibility for injecting excessive liquidity into the economy, but has been conducted on the erroneous premise that there must be close coordination between the rate of growth in the money supply and that in the gross national product. As a matter of fact, the character of commercial bank loans and investments, rather than their arithmetical total, is the determinant of the influence of bank credit on the gross national product. Where bank loans and investments are heavily concentrated in long maturities, their influence in support of the gross national product gradually wears out after their initial impact, which is not true of short-term self-liquidating bank loans which, in the rapidity of their turnover, give a constant and renewing dynamic support to the gross national product. A Federal Reserve System policy that pays closer attention to encouraging more constructive commercial bank lending and investing practices and less attention to the purely arithmetical relationship between the money supply and the gross national product is called for.

Irrespective of superficial inconsistency with previously proclaimed Federal Reserve System policy objectives, solution of the problems now existing requires that the level of free reserves be set at a point that will foster a level of interest rates that will serve to check the seemingly speculative movements in the prices of U. S. Government securities. In view of the liquidity positions of the commercial banks and their consequent ability to shift from investments to loans, that policy can be conducted without reducing the capacity of the banks to extend loan credit or exerting any undue restraint over the total expansion of bank credit. Such a policy will also eliminate any assumed justification for pegging U. S. Treasury bill rates.

Mr. Robertson expressed the view that although open market operations during the past three weeks may have been in accord with the second paragraph of the current policy directive issued on March 6, 1962, they had been inconsistent with the first paragraph. In his opinion, they exemplified almost a "bill rate only" policy, with emphasis placed on the clause in the second paragraph of the directive that called for taking account of the desirability of avoiding undue downward pressures on short-term interest rates. As a result, there had been what he would consider a tight money market. Also, there had been a lack of expansion of the money supply, although the first paragraph of the directive stated that one of the aims of the Committee was to promote further expansion of the money supply. There had been some expansion of bank credit, but not enough to encourage the economy to push upward.

In further explanation of his views, Mr. Robertson presented the following statement:

> The accumulation of economic evidence makes it clear that we have experienced a distinct slowing in our rate of business advance. How serious this development may prove to be cannot be judged by simple comparison with past experience, for never before in the postwar period have we had a business expansion which proceeded so far without being fueled by inflationary expectations. The fact is undeniable, however, that substantial amounts of unutilized resources persist in our economy. With the statistics on unused capacity and the absence of price pressures both underlining the ability of the economy to produce additional goods at prevailing prices, if demanded, I think we should consider some easing of our policy in the interest of counteracting any possible further loss of economic momentum.

The chief argument against any easing of policy at previous meetings of the Committee has run in terms of holding interest rates high in the hope of obtaining some marginal alleviation of the short-term capital flows that were aggravating our balance-of-payments deficit. The data since the first of the year indicate that if such a need ever existed, it certainly has been rendered less urgent. Our general balance-of-payments position appears improved, short-term capital movements appear to be shifting to a pattern more favorable to our longer run interest, and interest rates abroad have declined, exemplified most notably by the two successive cuts in the British Bank rate. The circumstances, I believe, call for a reassessment of the balance of considerations in the determination of monetary policy, with greater weight being given to domestic as against international factors.

Banking figures indicate a continued increase in bank credit after allowance for seasonal influences, but this increase has been facilitated almost entirely by an expansion of time deposits. Money supply has shown no net gain for four months. Statistics on other financial institutions and the securities markets suggest a substantial amount of shifting about in publicly-held liquid assets, and one cannot overlook the possibility that some of these shifts may be masking an underlying increase in private desires for saving and liquidity relative to spending. I believe our operations should be conducted in a way which allows such shifts to take place with a minimum of drag on economic activity. In particular, I do not like to see all increase in the money supply sacrificed because of the advance in time deposits and other near-monies.

Accordingly, I recommend that monetary policy during the next three weeks be aimed at supplying sufficient reserves to accommodate some increase in the money supply over and above the reserves needed to support the growth in time deposits. I should judge that this would require aiming at a free reserve target close to, or even above, the $450 million average of the three weeks before our last meeting, in contrast to the $390 million average of the latest period. I would not be surprised if such a policy were accompanied by some downward drift in the average rates on Treasury bills and Federal funds, and in fact I think a moderate rate movement of this kind might be judged to be in keeping with our policy aims at the moment rather than something to be resisted.

Monetary policy must be prepared to adjust flexibly to the changing tide of circumstances, always recognizing that subsequent readjustments may be a possibility as events change or the effects of the change in policy begin to work through the economy. I believe this is one of those occasions that calls for a moderate but definite easing of policy.

Mr. Shepardson noted that, although a strong upswing was not occurring, the staff report and the District reports made thus far indicated that there was some continued economic expansion. The expansion was not as fast as projected or as fast as many people would like. Perhaps, however, it was occurring on a more healthy basis than at many times in the past. As mentioned by others at this meeting, there were factors both in the international situation and in the domestic situation that lay outside the province of monetary policy. More and more people evidently were beginning to be aware of those factors, which afforded some hope and encouragement. He saw no evidence that a lack of availability of credit was retarding the expansion or that a greater availability of credit would accelerate the expansion. Instead, it appeared to him that the pace of expansion would depend on the resolving of factors that had not been faced in a number of years but were in the foreground at the present time.

Mr. Shepardson expressed the opinion that recent open market policy has been sound and adequate. As he had indicated, he did not feel that a policy of greater ease or an attempt to go further in building up the active money supply was going to have any significant effect on the inclination of persons at the present time to put their funds into time rather than demand deposits. Instead, other things would influence that decision. Accordingly, he would favor continuation of the policy that had been followed during the past three weeks.

Mr. Mitchell said it seemed to him the Committee was faced with two questions. The first question was what monetary policy should do in the current environment, which was one of lagging expansion. The second question was what monetary policy could do to cause the economy to perform more satisfactorily. On the first question, he thought it was important for the Committee to take expansive action if it could make such action effective. Should the economy continue for very long to perform as sluggishly as at present, there were going to be fiscal policy actions that would be more drastic, and perhaps more disturbing to the economy, than some more modest timely changes in monetary policy. There could be public works spending, tax cuts, and a large deficit in the public accounts. The President even now was proposing a special public works spending program and in his transmittal message noted that the economy had not performed satisfactorily during the past two months. In the circumstances, it appeared that the Federal Reserve, if it could do anything, should be prepared to do it.

Turning to his second question, Mr. Mitchell commented that the posture of the System for a long time had been one of confidence in economic growth. Monetary policy had been steady, rather than vacillating, and he did not feel that the Committee should get far away from this particular stance. However, it might be possible to affect public psychology somewhat at this point by giving the impression that there might be a period--perhaps not of too long a duration--in which long-term rates were going to be quite favorable. In this manner, some people might be encouraged to go ahead and make investment decisions. To accomplish this effect, free reserves might be allowed to rise rather markedly and short-term rates might be permitted to sag. Also, if some reserves, as needed, were supplied by purchases in the longer term area, this would add desirably to the pressure on long-term rates. While he was not sure that all this could be accomplished, he felt that the policy goal at this juncture should be to try to condition users of capital funds to seize this particular opportunity to go ahead with their financing. Personally, he would prefer to encourage rather than force people to make investment decisions; it was important to use every available means of achieving satisfactory levels of growth and expansion without starting an overhaul of the American economy. On that basis, he would suggest that the Committee change its stance ever so slightly in order to give the impression that this was a good time for people on the verge of investment to go ahead, that the opportunity might not last too long, and that it might not be repeated soon.

Mr. Bopp reported that business was improving gradually in the Third District, although in some categories it seemed to be falling behind the national average. Unemployment was still declining slightly. Production measures looked bad in February, but preliminary clues pointed to a good showing in March. Department store sales were fairly good, especially considering the later date of Easter this year. On the other hand, some indicators, after good starts in 1961, were now progressively lagging in comparison with their national counterparts. The banking situation was quiet on the whole. There had been a rather sharp increase in business loans, which almost made up the decline earlier this year.

Mr. Bopp said that he would favor leaving monetary policy essentially unchanged. The mediocre progress of business argued against any tightening at this time. In his opinion, the bill rate and the Federal funds rate might be somewhat lower than recently, with other rates at about present levels, and free reserves might be in about the same volume as in recent months, abstracting the recent inadvertent decline. He would not recommend changing the discount rate or the current policy directive. In short, he would associate himself closely with the views expressed by Messrs. Swan, Scanlon, and Wayne.

Mr. Bryan said there did not seem to have been any recent developments of particular significance in the Sixth District. Poor weather in other parts of the country had had a favorable effect on vacation business in Florida. Although there were complaints that visitors were not spending too freely, nevertheless facilities were fully occupied. Like the nation, the District had been experiencing a slowdown in the pace of economic expansion. The economy was still expanding, but at a much slower rate than earlier.

Mr. Bryan said he found himself puzzled as to what was happening in the American economy. He had a suspicion that some basic factors were operative at this point, involving fundamental shifts in the labor market and in demands, including the demand for housing, that were going to have to work themselves out in millions of private decisions. The question was what the Federal Reserve could do in such a situation. It seemed to him that any attempt to stimulate the economy by means of monetary policy would require large injections of reserves. There would be danger, he thought, from the standpoint of the country's international position and, to some extent, danger to the domestic economy in trying to place upon monetary policy tasks that it could not really perform without creating inflationary expectations. Thus, it seemed to him that about all the System could do was essentially what it had been doing. As to the supplying of reserves, he would like to take care of seasonal factors and in addition make allowance for a modest growth factor. At recent meetings he had suggested that the growth factor be at an annual rate nearer 3 per cent than 4 per cent, but he would be perfectly willing, in view of the recent slowdown of business, to accept a 4 per cent growth factor at this time. He did not believe that this was a time to change the discount rate.

Mr. Bryan said that he would like to associate himself with the view expressed by Mr. Mills regarding the danger of pegging the low end of the interest rate curve. In his opinion, grave difficulties could be involved in such a procedure. He had been experiencing difficulty in his own mind with respect to the apparently increasing emphasis on interest rates within the Committee. While he was not so much concerned about that at this particular moment, he was concerned that at some point the Committee might find itself absorbing reserves released by the economy in an effort to keep interest rates up when in fact rates were easing because the economy was deteriorating.

Mr. Francis reported that the situation in the Eighth District was much along the lines suggested by the reports from other districts. The pattern was mixed, with some indicators up and others down. Within the District, some sections were moving in one direction and others in the opposite direction. In general, however, it might be said that business activity in the District continued to show little change.

Mr. Balderston said he shared with Mr. Bryan a feeling that something fundamental was happening in the economy. This made it difficult for the Committee to know what actions to take and how the economy would respond to them. Personal income was at an all-time record high, 6.5 per cent above the peak reached in 1960. Nevertheless, retail trade continued to be below hopes and expectations. Clearly, then, there must be an increasing propensity to save. In the face of the rapid build-up of savings and time deposits at commercial banks and mutual savings banks, preliminary February data for savings and loan associations indicated a net savings inflow some 3 per cent above a year ago. The rapid increase in time and savings deposits at commercial banks, while it undoubtedly had affected the build-up of funds in other types of financial institutions, had nevertheless been accompanied by increases at both mutual savings banks and savings and loan associations.

Mr. Balderston said he suspected that the structural changes referred to by some persons during the discussion today would plague the System for a long time, in the sense that the economy would not respond in the same way that it did in previous postwar recovery periods. When one thought in terms of stimulating aggregate demand, this raised a question as to what form that stimulation might take. Should there be continued attempts to induce people to buy more appliances and durables, when they already had a great many, or should the stimulation take the form of inducements to fixed business investment of a kind that would make more jobs? There was a need, certainly, to make this country's plants more efficient by the replacement of outdated equipment by new and better machines. Also, there was a need to meet in some manner the coming build-up in the labor force by providing more job opportunities.

His conclusion at the moment, Mr. Balderston said, was that the economy was faltering to the point that the Committee ought to return to the 5 per cent total reserve growth line that it had followed through the better part of 1961. That would mean some increase in the level of free reserves and a possible decline in the Treasury bill rate until the domestic situation became more clear. In short, he felt that a slight increase in credit availability was indicated.

Chairman Martin noted that the Committee had been hovering between "slightly easier" and "slightly tighter" for several months. His own thinking was that a policy of remaining steady in the boat was about as good as could be found at the moment. He would not be against a slightly easier position, but felt that any such change ought to be very slight. In his opinion, an indication of apprehension about the economy and an attempt to do something through monetary policy would be self-defeating at this juncture, for a psychological factor was involved. It was possible, of course, that at some time this country might face a confidence crisis. This could occur because of the balance-of-payments problem or, to put it more accurately, a combination of a balance-of-payments problem and domestic economic considerations, because in his opinion the two problems were completely interrelated. Problems of employment, economic growth, and the balance of payments were all tied together. As evidence, there was occurring an outflow of capital from this country in the belief that opportunities for investment in the European Common Market and in Australia offered a better potential return than investments in the United States. Putting the question in terms of what the System could do, in his opinion the best thing it could do at the moment was to avoid giving any impression of apprehension. Actually, he felt that the Committee probably was inclined to be a little too pessimistic this morning. The Easter business was still going to be quite good, in his opinion, with some pickup in trade. Further, he doubted that monetary policy could be administered effectively by small and indecisive moves.

The Chairman noted that the Administration had already taken one move by proposing a public works program. While he agreed with Mr. Mitchell that anything the System could do to prevent the necessity for a large-scale move in that direction would be desirable, he did not think that this could be prevented by inducing a slightly greater degree of ease in the money market, when reports from areas all around the country indicated there was already plenty of money and credit available. He could not recall a time when there had been less complaint about the availability of credit.

Chairman Martin suggested that Mr. Mills' statement be studied by the members of the Committee. It was helpful to have presentations of that kind. Along this line, he felt that the Committee should not overemphasize at any point the contribution monetary policy could make. In his opinion, if the System maintained a stable position at this time it could not be accused of restraining the economy or of stimulating the economy too much, and that was the best course he could suggest to meet the dilemma with which the Committee was confronted. Admittedly, there was a real dilemma. If the budget should get further out of balance as the result of a slowdown in economic activity, Europeans would be looking on in a more skeptical manner than heretofore. As he had mentioned, there was already a flow of money to Australia and to the Common Market, and it was possible that there could be a confidence crisis at some point. What the System could do at that juncture, he was not prepared to say. One point was clear, however. At such a juncture, the System would have to take some action of a drastic nature. In the meantime, he did not think that it was a good thing to borrow trouble.

It appeared from the discussion this morning, Chairman Martin said, that the question was one of following a slightly easier policy or of maintaining the status quo. Certainly, the Committee did not have in mind anything drastic. In recent weeks there had occurred an inadvertent move toward lower free reserves than prevailed previously, but interest rates nevertheless had tended to decline. He would question whether it was accurate to say that the money market had been tight when interest rates were going down in the face of System efforts to discourage downward pressures on short-time rates. However, that was a matter of judgment. There were a variety of forces operating in the money market today that had not yet congealed and formed a pattern.

Chairman Martin said he understood that the majority position today would be to maintain the current economic policy directive in essentially its present form. Mr. Young, he noted, had a suggestion for a minor change in the first paragraph of the directive in order to recognize the modest nature of recent advances in the pace of economic activity. The Chairman then read this possible change.

Mr. Mills indicated that he would like to have his dissent recorded against the issuance of a directive in such form. The "poetic couplet" had so monotonous a rhythm that in his opinion it did not do credit to the Committee. His real concern, he said, was that recognition was not being given to the problems that must be faced. In his judgment, there tended to be a lag in group perception of what needed to be done. When there finally was an awareness and action was taken, a second lag ensued between the taking of action and the effectiveness of it. By drifting, therefore, the Committee would compound the difficulties that must be faced. Also, he felt that the Committee was tending to place far too much emphasis on the efficacy of monetary policy as an instrument for economic assistance. He did not believe that enough attention had been given to reading the scholars on cyclical theory and those who had measured past cyclical movements. There was a real possibility, he thought, that the economy had not yet moved to the bottom and experienced the turn in a major cycle.

Mr. Wayne raised the question whether the Committee wanted to retain the clause in the last paragraph of the directive that called for taking into account the desirability of avoiding undue downward pressures on short-term interest rates, and the Chairman commented that he thought this was a matter of judgment. While the clause could be stricken, the problem was one that in his view could not be ignored.

There ensued further discussion of the directive in the light of the suggestion that had been made by Mr. Young and the question that had been raised by Mr. Wayne, following which Mr. Robertson said he considered the whole directive questionable on the basis that its intent was not clear. If the Account Manager was not represented at the meeting, he doubted whether the Manager could determine from the language of the directive what he was expected to do. As indicated earlier, he (Mr. Robertson) felt there was a conflict between the first and the second paragraphs of the directive. If current policy was merely aimed at permitting a further expansion of bank credit, he doubted whether the second paragraph was needed.

After Chairman Martin had commented on the difficulties involved in composing a directive that was meaningful and served to draw together in a reasonably satisfactory manner the views expressed at a Committee meeting, Mr. Robertson inquired whether a majority of the Committee members had not expressed themselves in favor of a slightly easier monetary policy. The Secretary, after checking his understanding of the views of certain members, indicated that his record showed a close division between those who would favor a slightly easier policy and those who would favor essentially a maintenance of the status quo.

Chairman Martin noted that, as he had mentioned earlier, he would have no objection to a slightly easier policy. His difficulty was that he did not know how one could measure effectively "slightly easier" or "slightly tighter."

Mr. Swan suggested that this might be related to the conditions that the Committee had contemplated three weeks ago. It was his impression that the money market had gotten a little tighter in the intervening period.

Chairman Martin inquired whether this view was not based on statistical measurements. In a sense it could be said that money market conditions had been tighter, but actually interest rates had been lower.

Mr. Stone commented that during the past week or ten days conditions in the money market had been influenced by the situation in Chicago in anticipation of the April 1 personal property tax date. Yesterday morning, for example, one bank was holding $350 million of bills and carrying them largely through acquisitions of reserves through the Federal funds market. Other banks in Chicago likewise were undertaking this same kind of activity. This accounted for a Federal funds rate between 2-3/4 and 3 per cent, and approximately half of the total member bank borrowings were in Chicago. At the same time, there had been relatively little selling of bills in the market by other banks. They had not been so pressed for reserves that they found it necessary to liquidate bills. Apart from the Chicago situation, he saw no evidence of tightness.

Mr. Thomas suggested a different analysis. The reserve positions of not only the Chicago banks but also the New York banks had been tight. Bill rates had declined only because of special demands, largely on the part of Chicago banks. Those banks had been complacent borrowers during this period, but that could not be expected to continue.

Mr. Robertson inquired of Mr. Stone whether the Desk had aimed at free reserves of $360 million during the statement week ended March 7.

Mr. Stone replied that the result had been inadvertent; the Desk had thought that free reserves were going to average out over $400 million. In the most recent week it also had been anticipated that they would average over $400 million. However, float did not rise as much as anticipated and ran below the pattern of the past five years.

Mr. Thomas commented that the Desk did refrain, however, from buying securities, at times when it might have bought them for reserve purposes, because the bill rate was tending downward. Therefore, the lower level of free reserves was not altogether inadvertent.

Chairman Martin noted that this involved a matter of judgment. It involved an argument that could be debated continually. He doubted whether anyone could sit at the Trading Desk and make measurements in the terms that had been suggested.

Mr. Stone said that for the past year and a half the Desk had been faced with a problem in attempting to meet both of the objectives of the Committee, as stated in the directive. On most occasions the objectives were not sharply or seriously in conflict, but sometimes they were. During the past three weeks there had been a conflict because of the strength of the short-term market. The Account Management had thought that free reserves were going to average over $400 million in both of the statement weeks in which the average turned out to be lower than $400 million. There were times when the Account Management might have bought a little insurance. On those occasions, however, the bill rate tended to be under downward pressure and the Management refrained.

In further discussion, Mr. Wayne suggested that the foregoing comments pointed up the question that he raised earlier, that is, whether the Committee wished to retain the portion of the directive that called for avoiding undue downward pressures on short-term interest rates. There was definitely a degree of conflict, and the Desk could only resolve it one way or the other. If the thinking on policy was in terms of a slightly greater degree of ease, this would suggest placing more emphasis on putting reserves into the market at the risk of having the bill rate drift lower.

Mr. Thomas noted that he had not intended to criticize the operations of the Desk. He thought that perhaps the course the Desk had followed was the only feasible one under the circumstances. However, there were days when the Desk could have bought securities but did not buy because of regard for the bill rate.

Chairman Martin commented that one could turn to four or five different experts in a situation of this kind and come out with four or five different opinions. In operating the Account, the Desk was dealing with close judgment values. This touched on a point that he had been endeavoring to make earlier: if the Committee was talking about a substantially easier policy or a substantially tighter policy, there was something the Desk could do. However, when the Committee talked about becoming slightly easier or slightly tighter, that was a different matter. Within the framework of the current directive, he felt that the Desk had been doing about as good a job as could be expected under present conditions.

The Chairman said that personally he would come out with the thought of maintaining the status quo. In his judgment, the Account Manager, in following today's discussion, would say that the Committee would like errors to be resolved on the side of ease rather than tightness. However, the Chairman added, he found it difficult to know how to measure this in precise terms.

Mr. Mitchell then suggested making a change in the second paragraph of the directive so as to refer to "avoiding sustained downward pressures on short-term interest rates" rather than "avoiding undue downward pressures." Another suggestion was to refer to maintaining a supply of reserves adequate for further "credit and monetary expansion" rather than further "credit expansion." Likewise, there was before the Committee the revised wording of the first paragraph that Mr. Young had suggested earlier with a view to recognizing the modest nature of recent advances in the pace of economic activity.

Chairman Martin inquired whether any of the Committee members, other than Mr. Mills, would want to dissent from a directive embodying these suggested changes, and there were no comments to such effect.

The Chairman then turned to Mr. Stone and inquired whether he had any comments, to which Mr. Stone replied in the negative.

Accordingly, upon motion duly made and seconded, 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:

In view of the modest nature of recent advances in the pace of economic activity and the continued underutilization of resources, it remains the current policy of the Federal Open Market Committee to promote further expansion of bank credit and the money supply, while giving recognition to the country's adverse balance of payments and the need to maintain a viable international payments system.

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 and monetary expansion, taking account of the desirability of avoiding sustained downward pressures on short-term interest rates.

Votes for this action: Messrs. Martin, Balderston, Bryan, Ellis, Mitchell, Robertson, Shepardson, Clay, Scanlon, and Treiber. Vote against this action: Mr. Mills.

All of those in attendance except the members and alternate members of the Open Market Committee, the Reserve Bank Presidents not currently serving on the Committee, and Messrs. Francis, Young, Sherman, Kenyon, Thomas, Coombs, and Stone withdrew from the meeting at this point.

Consideration was given at this time to System foreign currency operations and related matters.

In this connection, there had been distributed to the Open Market Committee a report from the Special Manager of the System Account concerning (a) Open Market Account and Treasury foreign currency operations and (b) foreign exchange market conditions during the period March 6- March 21, 1962, along with a supplementary report for the period March 22 to March 26. Copies of these reports have been placed in the files of the Committee.

Also, in a memorandum dated March 23, 1962, the Special Manager reported discussions with representatives of the German Federal Bank in an effort to devise arrangements under which the Federal Reserve System could earn interest on its mark balances. These discussions had not been successful in overcoming the obstacles created by the System's inability to invest in foreign Treasury bills, the inability of the Bundesbank to pay interest on deposit balances, and the unavailability of bankers' acceptances and commercial paper in the German market. However, the Bundesbank had now approached the problem from another tack, that of voluntarily sacrificing interest on its dollar holdings to compensate for the nonpayment of interest on the System's mark balances. The arrangement proposed by the Bundesbank, as set forth in correspondence attached to the memorandum, provided in essence for increasing the cash balance of that Bank at the Federal Reserve Bank of New York, thereby reducing the Bundesbank's earnings from its dollar investments by an amount equivalent to the interest that the System could have earned by placing its mark balances in German Treasury bills.

In comments supplementing his written reports to the Committee, Mr. Coombs noted that the only System foreign currency transaction since the Committee meeting on March 6, 1962, had been the purchase from the Stabilization Fund on March 7 (value date March 8) of $25 million equivalent in German marks, as authorized by the Open Market Committee on March 6. This brought System holdings of marks to $32 million equivalent. The purchase had been made promptly following the authorization because it had appeared possible that the dollar might weaken as against the mark.

Turning to the subject of his memorandum of March 23, Mr. Coombs advised that discussions at Basle with officials of the German Federal Bank regarding the investment of mark balances had not been productive. However, a letter (dated March 14) was subsequently received from the Bundesbank and suggested a procedure that represented a voluntary gesture on its part. In his view, the offer should be accepted.

Mr. Coombs added that the possibility of placing mark holdings of the Federal Reserve System with the Bank for International Settlements had also been explored with the Bundesbank. However, Bundesbank officials did not seem receptive, and he doubted whether that possibility should be pressed further. As to the Bundesbank's offer, acceptance of it would seem to offer protection against criticism that could arise if the System's holdings of marks earned no interest while dollars held by the Bundesbank were invested in interest-bearing securities. The Bundesbank had been maintaining a rather small cash balance at the New York Reserve Bank, running from a minimum of $5 million to a maximum of $15 million. It would propose, in effect, to increase the cash balance to the extent required to reduce interest earnings on dollars in an amount equivalent to offset the loss of interest on the System's holdings of marks.

In response to questions, Mr. Coombs explained that the situation that had led to the German offer involved difficulties on both sides. The difficulty on the Federal Reserve side stemmed from the fact that under the law it was not authorized to invest foreign exchange holdings in foreign Treasury bills. The limitation on the German side was that under German statutes the Bundesbank was unable to offer the System the facilities of a time deposit. Further, it was impossible to locate commercial paper or bankers' acceptances in the German market. The Bundesbank welcomed the entry of the System into the area of foreign exchange operations and presumably was anxious to do everything possible with a view to having such operations continued.

Initial comments of several members of the Committee were to the effect that this would seem to be a proposition under which the Federal Reserve had everything to gain and nothing to lose, and Chairman Martin expressed the view that acceptance of the offer would seem to make for a sounder business arrangement from the System's standpoint.

Mr. Mitchell injected a somewhat different note, however, asking whether the System might not be on better ground if it did not accept the proposal and instead went to Congress with a request for legislation authorizing the investment of System foreign exchange holdings in foreign Treasury bills. He pointed out that the Federal Reserve was not engaging in foreign currency operations for the purpose of making money. While the present situation was somewhat unsatisfactory from the System's standpoint, he would feel more comfortable about accepting the facts as they were and taking the position that this was an item on which the System could use legislation advantageously.

Asked further with regard to the origin of the proposal, Mr. Coombs repeated that it was a voluntary suggestion on the part of the Bundesbank.

Mr. Robertson inquired whether the System might not be subject to criticism, should it build up further holdings of German marks, on the basis that the Bundesbank had influenced the System by agreeing to hold an equivalent amount of dollars without investing them. The System's objective in conducting foreign currency operations was not to obtain earnings; it would conduct such operations even if investment opportunities were not available. It was his instinctive feeling that the System might be better off if it did not accept any gift.

In response to a question about the possibility of holding mark balances with the Bank for International Settlements, Mr. Coombs said that officials of the German Federal Bank had been quite explicit in indicating that they would not want a third party involved in the arrangement between the Bank and the Federal Reserve. This attitude, he thought, may have reflected in part considerations of confidentiality and in part considerations of speed. It might take longer to work through the Bank for International Settlements.

Mr. Ellis commented that it would not seem well to cast aside lightly the fact that acceptance of the German offer would reduce an interest cost to the U. S. Government. Rather than looking with favor on expanding the opportunity for the System to invest its balances, the Congress might be critical of the System for operating in a way that had resulted in a net loss of interest. In his opinion, therefore, it would be desirable, from that standpoint, not to turn down this proposed arrangement.

In reply to a question from Mr. Ellis, Mr. Coombs cited reasons why he did not anticipate that acceptance of the German offer would be likely to establish a pattern for relationships with central banks of other countries. For example, there were ample investment facilities in the United Kingdom, while the Bank of France and the Bank of Italy could pay interest on time deposits. Further, institutional differences between the various central banks were so great that he doubted whether there would be the possibility of any pattern developing.

In further discussion, Mr. Mitchell inquired whether it seemed necessary for the matter to be settled today, and Mr. Coombs referred to the March 14 date of the letter from the Bundesbank.

Mr. Mitchell then indicated that he would have been better satisfied if the memorandum from the Special Manager had been worded a little differently, so as to place the matter simply on the basis that the proposed arrangement would put the Federal Reserve on an identical basis with the Bundesbank and that it would be necessary to change the law if the Federal Reserve wanted to retain interest on its mark balances.

At this point Chairman Martin withdrew from the meeting.

As the discussion continued, Mr. Coombs made the observation that he did not think one could look forward to a system that would equalize the interest yields on central banks' holdings of each other's currency. The arrangement with the Bank of France was a swap arrangement; it did not involve an outright holding of a foreign currency. Parity of interest rates between the two central banks involved would be appropriate in the case of a swap. When it came to outright holdings, the situation might be different.

Mr. Treiber then moved that the proposal of the German Federal Bank be accepted, and this motion was seconded by Mr. Mills.

In discussion of the motion, Mr. Robertson commented that instinctively he felt it might be inadvisable to accept the proposal. He was not sure enough of his position to vote against the motion, but he had a feeling that this was not a good thing to accept. It really amounted to accepting a gift, and he disliked the appearance that would be created.

Mr. Treiber said that when he first heard of the proposal his reaction was something like that of Mr. Robertson. However, after giving further thought to the matter, he concluded that this was a part of the framework of international cooperation.

Mr. Balderston said that he had had somewhat the same feeling. He had been attracted to the possibility of using the Bank for

International Settlements, but that approach did not meet with favor. Therefore, he would accept this proposal.

> Thereupon, the motion to accept the proposal of the German Federal Bank was approved unanimously.

Mr. Mitchell commented that, although not dissenting, he would like to reserve the right to insert a statement for the record.

> Secretary's note: Mr. Mitchell subsequently submitted the following statement:

There appears to be a confusion of principles in the Committee's discussion of the German Federal Bank arrangement. Monetary policy decisions clearly should not rest upon consideration of profitability to the central bank. This is well recognized in the dealings in the U. S. Government securities market when decisions to buy or sell rest upon the need or lack of need for reserves and not on whether the purchase or sale is likely to add to Federal Reserve earnings. The principle involved in the agreements between the Federal Reserve System and foreign central banks is that a pari passu relationship prevail. Thus the earning of interest is immaterial so long as both parties are similarly circumstanced. But the artificial arrangement suggested, which results in creating and at the same time sterilizing reciprocal assets and liabilities, is an operation difficult to justify in a public policy record.

Mr. Coombs then reported on discussions with representatives of the Bank of England regarding the possibility of a swap arrangement between the Federal Reserve and that Bank. The initial reception was guardedly sympathetic, he said, with an indication that a spelling out of the details was wanted. The suggestion made to the Bank of England was generally in terms of an arrangement similar to the recent swap arrangement with the Bank of France. One idea that had been mentioned was an immediate swap of $50 million, with the possibility of later going as high as $250-$300 million.

After commenting further on the conversations with officials of the Bank of England, Mr. Coombs said he hoped that it would be possible to place some definite proposition before the Open Market Committee for consideration in the relatively near future, perhaps prior to the next Committee meeting.

After responding to several questions, Mr. Coombs indicated, in reply to an inquiry from Mr. Balderston, that the immediate question was whether the Committee wished to authorize further negotiations with the Bank of England with a view to shaping up a specific proposal. As to amount, he suggested that the Committee might want to have in mind a limit on swap facilities of $300 million. It would perhaps be desirable, if a swap arrangement could be worked out, to put in $50 million fairly soon, as an indication that the swap facility was available. He would be inclined to suggest staying at $50 million unless and until some different situation developed than now prevailed. In effect, this would amount to a line of credit of an additional $250 million.

Accordingly, Mr. Balderston inquired whether it was the desire of the Committee to authorize further negotiations along the lines that Mr. Coombs had indicated.

Mr. Robertson said he would have no objection to further negotiations. However, he would not want this to be regarded as implying that he would necessarily vote in favor of any proposal that might develop out of such negotiations.

Mr. Young gave assurance that after further negotiations the matter would be brought back to the Committee for consideration, and that the Committee would be kept up to date.

> Thereupon, subject to the foregoing understanding, Messrs. Young and Coombs were authorized to proceed with negotiations looking toward the possibility of a swap arrangement with the Bank of England.

On the theory of System foreign exchange operations, Mr. Mitchell raised a question about engaging in operations that might contribute to supporting currencies other than the dollar.

Mr. Mills commented that he thought this had been implicit in the approval of the program. Where the Federal Reserve was obtaining support of the dollar through swap arrangements with other foreign central banks, there would seem to be an inescapable responsibility to reciprocate.

Mr. Hayes said that he thought the Committee had been over this ground rather thoroughly when it was considering a program of System foreign currency operations. As he recalled, it had been understood that this was a two-way street and that the System would expect to participate in efforts directed toward trying to cushion speculative movements. It would provide assistance in order to enable the country affected to develop other defensive tactics.

Mr. Balderston indicated that his understanding was essentially the same. He thought that the System program had to be looked at as a two-way affair.

Mr. Shepardson said it had been his understanding that the thought was to meet temporary exchange rate fluctuations related to speculative movements. He also thought, however, that it was not contemplated that System operations would be used to counteract a fundamental change in the position of any particular currency.

Mr. Coombs agreed, saying that it was his thinking that System operations would be in terms of providing cushioning facilities to keep speculation from snowballing. If a situation did snowball, other measures would be required. The hope would be to forestall such a snowballing.

At the instance of Mr. Mitchell, a brief discussion was devoted to the contemplated scope of the minute record relating to Committee discussions of System foreign exchange operations. The view expressed by Mr. Mitchell was to the effect that despite the highly confidential aspects of some phases of such operations there should be a sufficient record and the positions of Committee members on important issues should be reflected adequately.

From the comments made, there appeared to be general agreement with the view that actions of the Committee, and the positions of Committee members with respect thereto, should be suitably recorded in the minutes. At the same time, the subject matter of the discussions was often likely to be such that the minutes would merit careful scrutiny by the Committee. With this in mind, it was suggested that the distribution of preliminary drafts of minutes covering those portions of Committee meetings devoted to consideration of foreign exchange operations might be restricted to the members and alternate members of the Committee, other Reserve Bank Presidents, and those members of the staff participating in such discussions. The preliminary draft could then be reviewed closely by this group and such corrections suggested as might seem appropriate prior to the preparation of the revised draft. In comparison with the possible alternative of preparing two separate sets of minutes, one of which would be for limited distribution, a number of advantages in the suggested procedure were mentioned.

Mr. Balderston inquired whether an approach such as suggested would appear generally satisfactory to the Committee, and there were no comments to the contrary.

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

Mr. Coombs continued his presentation to the Committee by commenting on discussions with officials of the Swiss National Bank, at the time of the recent meeting of the Bank for International Settlements in Basle, with regard to the possibility of a swap arrangement between the Federal Reserve and the National Bank. As preface, he pointed out that the current plan for enlarging the standby resources of the International Monetary Fund did not include Switzerland, which was not a member of the Fund. In this circumstance, the Swiss had been invited to associate themselves in some kind of parallel arrangement, and both they and the U. S. Treasury had come to look with favor on a bilateral credit arrangement. While this might have been on a Treasury-to-Treasury basis, the Swiss had expressed a preference some time ago for a swap arrangement between the Swiss National Bank and the Federal Reserve System. However, it now appeared that the management of the National Bank had found it necessary to go to the Government for clarification. Such discussions were understood to be currently in process, but it seemed possible that weeks or possibly months might elapse before negotiations looking toward a dollar-Swiss franc swap arrangement could begin. Even then, it apparently would require real effort to bring about the best possible operation. Nevertheless, he felt that the effort would be worthwhile.

After further discussion, Mr. Balderston said he assumed that Mr. Coombs would keep the Committee informed of any developments, and Mr. Coombs responded in the affirmative.

At this point Chairman Martin and Mr. Mitchell joined the meeting.

Mr. Coombs next reported on operations of the Treasury's Stabilization Fund during the period since the March 6 meeting of the Open Market Committee. In this connection, he noted that last week there had been a tendency for the dollar to weaken rather sharply as against the German mark, mainly because of a tax date in Germany. According to German procedure, tax money was taken in and sterilized temporarily, and to meet liquidity needs the German banks repatriated funds from abroad. This was a temporary situation, expected to exist only until around the end of this month. In this circumstance, a total of $7.5 million of Stabilization Fund holdings of marks were sold by the Stabilization Fund in the market, and this had proved effective in preventing the dollar rate from slipping further. These operations were undertaken primarily in light of the temporary circumstances reflecting a foreign money market situation, but in addition the news of the gold buying pool (discussed subsequently at this meeting) had broken and the U. S. Treasury wanted to avoid any indication of a deterioration of the position of the dollar. In addition, this week's statement would show a rather sizable reduction of the U. S. gold stock. There might, therefore, be continuing sales of marks by the Treasury during the remainder of this week.

Mr. Coombs then raised the question whether the Open Market Committee would regard it as an appropriate activity for the System to employ its holdings of a foreign currency to offset a temporary weakening in the position of the dollar under circumstances such as he had described.

Initial expressions by several members of the Committee indicated that, according to their understanding, this was the kind of operation that was envisaged under the System program.

Accordingly, Mr. Coombs asked whether the Committee would wish to authorize him to utilize System holdings of German marks, say in the course of this week, in anticipation that the weakness of the dollar against the mark would correct itself shortly after the end of this month.

Mr. Swan inquired whether there appeared to be some possibility of the current situation giving rise to further speculation. Although realizing that this involved a question of judgment, he presumed Mr. Coombs felt that there might be some danger of the situation being compounded. Absent such a possibility, he wondered whether the System should try to smooth out temporary, short-run exchange rate fluctuations of this kind.

Mr. Mitchell said he would like to endorse that position. He thought it important that the System not engage in straightening out various short-run moves of this kind unless there was reason to believe that they might touch off some other development.

In reply, Mr. Coombs said that, with the exchanges in a sensitive state, he could not predict what the reaction might be to a significant depreciation of the dollar as against the German mark. In view of the many existing uncertainties, including the possible reaction to announcement of a relatively large U. S. gold loss this week, he would be inclined to seek a little protection in the form of keeping the dollar from going too low as against the mark.

Mr. Wayne inquired whether, from the standpoint of Committee procedure, this situation could not be compared to the situation in the domestic area where the Committee gave a general instruction to the Manager of the System Open Market Account and relied upon his judgment of the feel of the market.

Chairman Martin expressed the view that in the current experimental stage of foreign currency operations, the Special Manager should proceed in a situation of this kind on the basis of his best judgment. Afterward, the operations could be evaluated, but he felt that at this juncture the Committee must rely substantially on the judgment of the Special Manager.

In further discussion, Mr. Coombs indicated that he was inclined to feel that in this particular situation the movement of the exchange rate was of some importance. With the recent reduction of the British bank rate, no one knew exactly what the new relationships would be. That circumstance, combined with the prospective announcement of a loss in gold stock, would incline him on balance to think that it was a good idea to support the dollar against the mark. The greater the degree of uncertainty in the market, the stronger would be the case for moving in to check any weakening of the dollar.

Chairman Martin again expressed the view that this was the kind of decision that the Committee ought to leave to the discretion of the Special Manager at this juncture of the System foreign exchange program.

> Thereupon, the Special Manager was authorized to proceed, in the light of market developments, to make such sales of System holdings of German marks as in his judgment might seem appropriate.

There had been distributed to the Committee copies of a translation of an article titled "A New American Proposal: A Pool for Gold Purchases in London" that appeared in the Journal de Geneve of March 8, 1962. The article noted that in the latter part of 1961 a pool of banks of issue was created with the aim of supplying the London market with gold and that the pool's operations were suspended after it had proven its effectiveness in stabilizing the market. According to the article, the American authorities had now proposed to other central banks the establishment of a pool for the purchase of gold in London. Mr. Coombs commented on these articles and related matters.

In a discussion based on the information reported by Mr. Coombs, Mr. Bryan referred to a suggestion made at this morning's session by Mr. Clay, which was to the effect that it would seem helpful if the Open Market Committee could have as much information as possible on various steps being undertaken by the United States Government to cope with the balance-of-payments problem.

Chairman Martin commented that perhaps something of that kind could be obtained from the Treasury. He doubted, however, whether there was too much to report beyond what had been carried in the press. The nature of the various undertakings had been fairly well spelled out in the press; the question was how effective they would be.

After further general discussion relating to the balance of payments, the meeting of the Open Market Committee recessed and there ensued a meeting of the Board of Governors with the Presidents of the Federal Reserve Banks.

At the conclusion of that meeting, Chairman Martin noted that some consideration had been given recently by the Board of Governors to the possible desirability of publishing verbatim the minutes of the Open Market Committee for a period beginning around 1950 and continuing until some fairly recent date. He indicated some of the reasons that had caused the question to be brought up for discussion and stated that the subject would be placed on the agenda for consideration at the next meeting of the Open Market Committee.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, April 17, 1962.

The meeting then adjourned.

Secretary