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, April 17, 1962, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Bryan
Mr. Deming
Mr. Ellis
Mr. Fulton
Mr. King
Mr. Mills
Mr. Mitchell
Mr. Robertson
Mr. Shepardson

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

Mr. Swan, President of the Federal Reserve Bank of San Francisco

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hexter, Assistant General Counsel
Mr. Thomas, Economist

Mr. Reed, Chairman of the Federal Reserve Bank of New York

Messrs. Heflin and Francis, First Vice Presidents of the Federal Reserve Banks of Richmond and St. Louis, respectively

At its meeting on February 13, 1962, the Federal Open Market Committee adopted an authorization for foreign currency operations that provided, among other things, for a Special Manager of the System Open Market Account for foreign currency operations to be selected in accordance with the established procedure for selection of the Account Manager. At the same meeting, reference was made to the provisions of the Committee's By-Laws and Rules of Organization regarding selection of the Manager.

In a memorandum to the Committee dated February 23, 1962, Chairman Martin pointed out that, since the new position of Special Manager had been authorized, the Committee's By-Laws and Rules of Organization should be amended to provide for the Special Manager as well as the Manager. The memorandum also suggested that the Committee might wish to consider a change in the method of selection of the Manager and the Special Manager. The By-Laws and Rules of Organization provided that the Reserve Bank selected to execute transactions for the Open Market Account should select a Manager of the Account who would be satisfactory to the Committee. It was suggested that consideration might be given to changing Section 5 of Article II of the By-Laws (with a conforming change in the Rules) so as to provide that the Committee would select a Manager of the System Open Market Account and a Special Manager for foreign currency operations for such Account, both of whom would be satisfactory to the Federal Reserve Bank selected to execute transactions for the Account.

Discussion of this matter was deferred at the Committee meeting on March 6, 1962, in order that Chairman Reed of the Federal Reserve Bank of New York might meet with the Committee and express his views. It was understood at that time that Chairman Reed would intend to be present for discussion with the Committee at its meeting on April 17, 1962.

Under date of March 23, 1962, Mr. Hayes transmitted to the Committee a memorandum recording his views concerning the proposal for a change in the method of selection of the Manager and Special Manager. Reasons cited by Mr. Hayes for opposing the proposed change in procedure were: (1) the transfer to the Federal Open Market Committee of the initiative for the selection of the Manager and Special Manager would tend to obscure the institutional responsibility of the Federal Reserve Bank of New York for carrying out the policies of the Committee; (2) such transfer of initiative would tend to erode the statutory authority of the Board of Directors of the Federal Reserve Bank in New York in respect to the appointment of officers and the assignment of their duties; and (3) such transfer of initiative would, actually or potentially, create personnel problems for the Bank.

Under date of April 11, 1962, there was transmitted to the Committee, at Chairman Martin's request, a memorandum dated April 3, 1962, that had been submitted to him by Mr. Hackley, General Counsel of the Open Market Committee. This memorandum cited certain legal considerations that should be borne in mind with regard to the method of selection of the Manager and Special Manager, and in light of those considerations and Mr. Hayes' memorandum, discussed arguments for and against the proposed change in method of selection.

In a memorandum to the Committee dated April 9, 1962, Mr. Hackley reported having reviewed the Committee's published general Regulation, its published Rules on Organization and Information and Rules on Procedure, and its unpublished By-Laws, all most recently amended in 1955, to determine what conforming changes, if any, were necessary as a minimum in light of the Committee's authorization dated February 13, 1962, regarding foreign currency operations. As to the Regulation, it did not appear that any changes were essential. As to the Rules on Organization and Information, the Rules on Procedure, and the By-Laws, certain minor changes seemed necessary. Recommended amendments were submitted with the memorandum along with certain other minor amendments that would bring the Rules and By-Laws into conformity with current Committee practices. To some degree, it was pointed out, the nature of the changes would depend upon the Committee's decision as to the method of selection of the Manager and Special Manager, in the light of Chairman Martin's memorandum of February 23, 1962.

In introductory remarks, Chairman Martin noted that the Open Market Committee's Ad Hoc Subcommittee on the Government Securities Market in its report of November 12, 1952, had suggested, without proposing such a shift, that consideration be given by the Open Market Committee to an arrangement under which the Account Manager would not be an officer of any Federal Reserve Bank, but instead would be appointed by and solely responsible to the Committee. Chairman Martin then turned to Chairman Reed and indicated that the Committee would be pleased to have his views regarding the current proposal, as stated in his (Chairman Martin's) memorandum of February 23, 1962, which was that the Manager and Special Manager be selected by the Open Market Committee, subject to their being satisfactory to the Reserve Bank selected to execute transactions for the Open Market Account.

Chairman Reed indicated that he would not propose to repeat the arguments set forth in Mr. Hayes' memorandum, which he felt personally were persuasive, if not compelling. Instead, his approach would be to supplement the memorandum from the point of view of a person in his position who believed deeply in the importance of the Federal Reserve System. For almost 50 years, the System had demonstrated the value of a unique blending of public and private, central and regional. Historically, there had been a tendency in government for a system of that kind to be sucked toward the center. Therefore, it would be advisable to look carefully at any suggested change that might weaken the regional aspects of the Federal Reserve System.

Chairman Reed recalled that at the most recent meeting of the Conference of Chairmen of the Federal Reserve Banks there was discussion of recommendations of the Commission on Money and Credit with respect to the Federal Reserve System. Among other things, the Commission had recommended that the Reserve Bank Presidents no longer have responsibility in the formulation of open market policy, and that the Reserve Banks no longer participate in the establishment of the discount rate or in the designation of members of the Federal Advisory Council. It was the view of the Chairmen and Deputy Chairmen in attendance that if such changes became effective, one of the great values of the Federal Reserve System over the years would be impaired to a substantial degree. It was felt that the Federal Reserve System was not well enough understood by the American people. Part of the job of the System was to assure that everything possible was done to broaden and deepen public understanding of the System throughout the country. The Board of Governors had done some excellent work in that regard, but the Federal Reserve Banks and branches, working through their directors and officers, had perhaps even greater leverage on the informational front. If anything should happen to weaken the status of the regional banks, that would be a step in the wrong direction. The Reserve Banks would begin to lose competent executives and be unable to attract community leaders to their boards of directors.

It was against that background, Chairman Reed continued, that he approached the question at hand. Anything that was done to weaken the prestige, standing, or importance of any of the Reserve Banks called for the best kind of reasons. The burden of proof was on those who suggested a change. The proposed change in procedure for selection of the Manager and Special Manager of the System Open Market Account was not a matter of substance. Anyone chosen for either of those positions must be thoroughly satisfactory to the Open Market Committee as well as to the Reserve Bank. The New York Bank, assuming that it was chosen as the Reserve Bank to execute transactions for the Open Market Account, obviously must be satisfied with the persons who were going to be Manager and Special Manager of the Account. At the same time, the Open Market Committee must be satisfied. In his judgment, however, a change of procedure that would take away from the New York Bank and its Board of

Directors the present right to designate the officer of the Bank who would be Manager or Special Manager, subject to the complete approval of the Committee, would be a change in the direction of reducing the status of the Reserve Bank. He did not think that such a change was necessary.

Chairman Reed reiterated that he could see no disagreement in substance. In effect, the appointment of a Manager or Special Manager was a joint appointment. If it were so expressed, he would not see any difficulty on the part of the New York Bank. However, if the present procedure was turned around and the New York directors were given only a veto power, not only would this accomplish nothing of substance but it would represent a diminution of the status and importance of the Reserve Bank. If any other Reserve Banks were affected in the same manner, he would feel exactly the same way.

Asked regarding his concept of the primary responsibility of the Account Manager, Chairman Reed replied that he thought of the Manager as an officer of the Open Market Committee, and certainly the Manager was an officer of the New York Bank. The Manager had a responsibility in both directions, but it was hard to think of him as an individual standing quite apart from the New York Bank. The Manager required the facilities, personnel, and research of the Bank to do his job. He (Chairman Reed) would prefer to think of the Committee as placing responsibility not in one individual but in an institution. The President of the Bank was also a member of the Open Market Committee, and the Account

Manager likewise had to wear two hats, for he had a divided responsibility. His policy direction came from the Open Market Committee. In terms of doing a good job of execution, his responsibility was to both the Committee and the Reserve Bank, the latter having been selected as the institution to get the job done. The Manager should be backed up by good facilities. If he was not, the Reserve Bank was at fault.

Question was raised whether it might not appear to an observer as though the Open Market Committee, in selecting a Reserve Bank to execute transactions for the Open Market Account and turning over to that Bank's directors the task of selecting a Manager of the Account, had created an opportunity, at least, for misuse of information. To this, Chairman Reed replied that the directors of the New York Bank understood completely that they were not entitled to receive, and would not receive, knowledge of the policy discussions and directives of the Open Market Committee or knowledge of the day-to-day activities of the Account Manager in implementing those directives. They received reports after the fact and went through the form of ratification. Sometimes, in the case of new directors, there had been a few questions on their part. Once the situation was explained to them, however, they understood it perfectly. He was not familiar with any instance in which there had been a slip on the part of the Manager in advising a member of the Board of Directors of things about which the latter should not know. If the question that had been put to him were carried to an extreme, Chairman Reed noted, it would be necessary to go much further than the current suggestion for changing the method of selection of the Manager and Special Manager. It would be necessary to lift the whole operation of the Open Market Account out of the Reserve Bank. This would require an additional apparatus without adding to the quality of the operation.

Chairman Martin said he wished to make it clear that he had been the one who proposed the change in method of selection. He was in complete agreement with everything Chairman Reed had said concerning the importance of the regional structure of the Federal Reserve System. He also agreed that the question at hand was one of form and not of substance. However, he felt that the form was wrong under the present arrangement.

Chairman Martin noted that at one time the Open Market Committee operated with an executive committee, but a change was made so as to have all of the Reserve Bank Presidents participate in every meeting of the Committee. Along with this evolution, attention had been directed to the method of selection of the Account Manager and the question of the Manager's primary responsibility. He (Chairman Martin) did not feel that the proposed change in method of selection would impair the institutional responsibility of the New York Bank or in any way impugn the activities of the directors of that Bank. It ought to be made clear, however, that the Committee could select an individual from any of the Reserve Banks, or in fact from anywhere in the United States, rather than from the New York Bank alone. On that point, also, he felt there was no disagreement between Chairman Reed and himself.

It seemed to him, Chairman Martin concluded, that the form would be much better if the Committee selected the Manager and Special Manager, subject to their being satisfactory to the Reserve Bank selected to execute transactions for the Open Market Account. All of the Reserve Banks ought to be equals in the matter of selection; the fact that one of the Banks was located in New York City was, in his judgment, a relatively unimportant consideration. As Chairman Reed had indicated, this was a matter of form and not of substance, but it should be resolved one way or the other.

Chairman Martin then indicated that he would call for expressions of views around the table, and he turned first to Mr. Hayes.

Mr. Hayes said that in terms of substance, he did not see that any real difference of opinion existed. He would subscribe to what had been said about the necessity for everyone on the Committee and at the New York Bank to be satisfied with the men selected as Manager and Special Manager. Furthermore, he would regard the whole field as being open for the selection. If the other Reserve Banks or an outside source produced a person who appealed to everyone concerned as the best man, that person should be selected; he had no disposition to say that the man should have to come from the New York Bank. He hoped that the New York Bank would be able to train people in such manner that it would be thought that such persons were deserving of consideration, but that did not preclude other persons from also being considered. However, even though the matter was one of form rather than of substance, the principle involved was important for the reasons Chairman Reed had outlined. This was one more evidence of the tendency to impinge on the status and importance of the Reserve Banks. He did not propose to review in detail the arguments that had been presented in his memorandum. As to Mr. Hackley's memorandum, he had read it with interest. He would omit from his comments some of the considerations Mr. Hackley had listed that would bring in a broader scope of issues.

His memorandum, Mr. Hayes pointed out, made three principal points about Chairman Martin's proposal that in his judgment were important. First, the proposal failed to recognize the institutional responsibility of the New York Bank for carrying out open market operations pursuant to the will of the Committee. Second, the proposal would tend to erode the authority of the Reserve Bank's directors. Third, it would create some personnel problems for the Bank. There could hardly be disagreement, he thought, that the Federal Reserve Bank selected to execute transactions for the Open Market Account had an institutional responsibility to see that the job was well done. Since the directors had authority to appoint the officers of the Bank and to define their duties, there was a strong logic in the present procedure. He found some passages in Mr. Hackley's memorandum with regard to the Committee delegating authority to the Manager that to him were not realistic. Under the law, the execution of open market transactions must reside with a Reserve Bank. The 12 Banks, operating together and acting through the New York Bank, were to carry out such transactions. The points in Mr. Hackley's memorandum failed to recognize that institutional responsibility. Further, the New York Bank's experience in personnel administration pointed up the validity of the argument made in his (Mr. Hayes') memorandum. If the Bank was going to try to develop good people within its organization, there must be an atmosphere in which it could attract and retain such persons through giving them reasonable hope of promotion. Also, there were distinct advantages in having the Account Manager in a position to consult closely with his associates, including the other senior officers of the Bank, his alternates, and the whole organization of the Securities Department. Coverage in depth was extremely important. When there were no open market operations, the fact that the Manager engaged in other operations was also an advantage, for this kept him in close touch with the market. All central bank operations in the New York money market were closely interrelated. Discount operations were tied in closely with open market operations, and the foreign exchange activities would also be tied in closely. He thought it highly important to stress the fact that it was the Reserve Bank that should sort out these things and keep them properly coordinated. He could not stress too much the institutional responsibility.

As to possible courses of action, Mr. Hayes said it had been his feeling all along, as his memorandum indicated, that the burden of proof was on those who would change the method of selection of the Manager and Special Manager. He did not believe that it had been demonstrated that there would be a real advantage in a change; quite the contrary. However, he recognized the force of some of the arguments that had been made. From a strictly realistic standpoint, the Committee and the New York Bank were each vitally interested in the selection of the Manager and Special Manager. The simplest answer seemed to be a process of joint appointment; that is, to have the Manager and Special Manager selected by the Open Market Committee and the New York Bank simultaneously. While he saw no necessity to change the present procedure, he thought that the procedure of joint selection would be acceptable. He could not speak for the directors, but he thought it would be acceptable to them. It would appear to meet all of the objectives that had been set forth in the proposal advanced by Chairman Martin.

Mr. Ellis said that as he looked at the job to be performed, there were essentially two parts. First, there was the execution of the decisions of the Committee. He thought it was agreed that this function must be performed by a coordinated team. The importance of the Manager being an officer of the Reserve Bank and being engaged, in that capacity, on other operations for which the Bank was responsible seemed to be agreed upon and not a matter at issue. The second part of the problem was the matter of effective communication between the Open Market Committee and the operating people in the New York Bank. There should be a direct relationship between the Committee and the operating officer known as the

Manager. That was the reason for the Manager's presence at open market meetings. It was the underlying reason for the Committee's continuing efforts to improve its methods of communication to the Manager. The Committee must depend on, and have confidence in, the Manager. If it did not have confidence, that would lead to questioning the Manager's motives rather than to discussion about techniques and practices. The overriding responsibility of the Manager must be to the Committee in respect to the decisions that the Committee expected him to carry out. At the same time, the Manager must clearly be acceptable to the New York Bank: an officer of that Bank and a person who could work well with the staff of the Bank. The Committee and the New York Bank should both participate in seeking the best person.

It struck him as of relatively little importance, Mr. Ellis said, whether the Committee or the New York Bank made the decision or approved the decision. For the record, it should be clear that the Open Market Committee did not stand in a secondary position. However, the Committee need not have preeminent authority in the selection of the individual. Mr. Hayes' proposal for joint appointment would seem to meet satisfactorily the objectives of the Committee. It would show that the Committee was not in a secondary position in the selection process. From the standpoint of form, it would seem appropriate if the By-Laws were to provide that the Committee made the selection of the Manager jointly with the Federal Reserve Bank selected to execute transactions for the Open Market Account. However, if agreement could not be reached on the procedure of joint selection, then he would favor the proposal of

Chairman Martin whereby the Committee would select a Manager and a Special Manager, both of whom were to be satisfactory to the Reserve Bank selected to execute transactions for the Open Market Account.

Mr. Irons said he would start with the thought that the Manager of the Account had a dual responsibility. The Manager performed a function for which he was directly and primarily responsible to the Committee. At the same time, he had a technical administrative responsibility that made it desirable for him to hold a position of seniority within the Reserve Bank selected to execute transactions for the Open Market Account. The very fact that the Committee selected a particular Bank--which would inevitably be the New York Bank--ought to be regarded as an expression of complete confidence in that Bank and recognition of that Bank's institutional prestige and character. It would be unfortunate if anything were done that would tend to lessen the institutional prestige of the Bank. The question under discussion involved a matter of form rather than a matter of substance, but it involved the possibility of criticism of the Committee for not at least sharing primary responsibility with the Reserve Bank in the selection of the Manager and Special Manager. A relatively unimportant matter of form might lead to questions of substance.

Mr. Irons said he rather liked the joint appointment suggestion as a compromise move, with a spelling out of the fact that the Manager and the Special Manager were to be not only senior officers of the New York Bank but also officers of the Committee. The two-hat type of responsibility went all through the System; it was not applicable in just this one instance. To a degree, the appointment of a Reserve Bank President was a joint arrangement, and a President was wearing a second hat when he served as a member of the Open Market Committee. If the compromise approach were followed, the Open Market Committee would have primary responsibility for the selection of the Reserve Bank to conduct operations for the Open Market Account and joint responsibility with the directors of that Bank in the selection of the Manager and Special Manager. Those persons would be senior officers of the selected Reserve Bank and also of the Committee. They would serve at the pleasure of the Committee, and they would attend all of the meetings of the Committee.

Mr. Swan said he would agree with what had been said about the dual responsibility of the Manager and Special Manager, and also with the thought that the Committee was discussing something that involved primarily a question of form. However, as Mr. Irons had suggested, it was important that matters of form not shift over to matters of substance. If the question of the method of selection were coming up originally, he would have leaned a little toward the primary responsibility being more clearly reflected as flowing to the Committee. However, he would not like to see any change made that might be interpreted as more significant than it really was. While he had not thought about the possibility of joint selection, this possibility appealed to him, although it was not entirely clear what might be involved in the mechanics of such an arrangement. If this could be made evident not only to the Committee but to anyone else who might be interested, the joint selection approach might be quite satisfactory. In any event, however, the designation of the Manager and Special Manager as officers of the Committee ought to be recognized. In summary, he would favor the joint selection procedure if it could be made clear just how the procedure would work, and if it was clear that this would not raise further questions about the relation of the Manager and Special Manager to the Committee.

Mr. Deming said he had not thought of the possibility of joint selection until this morning. He had started out with the thought that the present arrangement, whereby a Reserve Bank was selected to execute transactions for the Account and that Bank then selected the Manager, was not completely logical because in his view the responsibility of the Manager ran to the Committee more than to the Reserve Bank. Neither, however, did it seem completely logical to select a Reserve Bank to execute transactions and not give that Bank authority to select the Account Manager. On balance, he had favored Chairman Martin's suggestion because it would clearly indicate that the Manager's primary responsibility was to the Committee. As the discussion proceeded this morning, however, he would now lean toward the joint selection approach. It would seem to be no more illogical than either of the other arrangements.

Mr. Scanlon stated that he wished to associate himself with the comments of Mr. Deming.

Mr. Clay indicated that he found no difficulty in the present arrangement. It did not concern him particularly which procedure was followed, but the present arrangement added something to the prestige of the New York Reserve Bank. Located in the central money market of the world, it seemed desirable for the New York Bank to have that prestige, and it did not bother him that the Kansas City Bank could not have it. As to the possibility of selecting an Account Manager or Special Manager from elsewhere throughout the System, there might at some point be an individual with talent along those lines in some Bank other than New York. Nevertheless, it would be difficult to expect that the Manager or Special Manager would come from the Kansas City Bank, for example, unless the individual concerned was transferred to the New York Bank prior to his appointment in order to obtain experience.

Mr. Clay went on to say that he had found no difficulty with other situations where a somewhat similar type of problem existed. For example, the directors of the Kansas City Reserve Bank had appointed him as President, but his appointment was subject to approval by the Board of Governors. He had responsibilities, on the one hand, for the operation of the Reserve Bank, and on the other hand in relation to the Federal Open Market Committee. He had found no difficulty in handling that problem. Likewise, he found no problem in the Kansas City Bank acting as fiscal agent for the Treasury, for which purpose the Reserve Bank selected officers at that Bank to handle such operations. He would find great difficulty in having to accept an individual whom the Treasury might happen to put in the Bank to conduct such operations, but he had no difficulty with the present situation. A lot of these things existed in a lot of places throughout the System.

Mr. Clay said he had a strong feeling that the regional aspects of the System represented its greatest strength as far as the people of the United States were concerned. As he saw it, the current proposal for selection of the Manager and Special Manager would have some tendency to detract from the prestige of the New York Bank. Further, an extension of that tendency over a period of time might result in the Account Manager employing personnel and having a separate payroll. He would prefer to have the responsibility vested in the New York Bank as an institution. If he did not feel the responsibility was being carried out properly, he would not hesitate to talk with Messrs. Hayes and Rouse and then talk to the Open Market Committee on the same basis. In summary, he would prefer to retain the present method of selection.

Mr. Mills said he felt that Chairman Reed had identified the crux of the longer-range problem in his opening statement when he expressed concern that over a period of years there would be a gradual centralization of authority within the Federal Reserve System. A weakening of the system concept would eventually pull the Federal Reserve in the direction of nationalization. In his (Mr. Mills') opinion, however, the proposal to shift to the Open Market Committee the function of selecting the Manager and Special Manager would operate in the direction of halting such a trend. Actually, the Federal Open Market Committee might better be named the System Open Market Committee. It was a

Federal Reserve System organization and had a System-wide responsibility that did not attach to any one of the Federal Reserve Banks, except to the extent that one Bank was selected by the Committee to execute transactions for the Open Market Account. In his opinion, the time had come to indicate clearly that the Committee, as a System organization, controlled and directed the conduct of open market operations. He had a feeling that over a period of years the operation of the Account had thrown the Desk into a propinquity with the Treasury and the Executive Branch of the Federal Government that could set in motion a drift toward centralization. The kind of proposal that Chairman Martin had submitted to the Committee would stand as an obstacle to that trend.

Mr. Robertson noted that the Open Market Committee's job was to make policy. The Manager's job was to make decisions to implement that policy, and the New York Bank's job was to execute transactions for the Open Market Account. Theoretically, it could be said that those functions should be separated completely, but this was not feasible in practice. Although the current proposal was a compromise, it was in the proper direction of indicating to the world that the Manager and Special Manager had a primary responsibility to the Open Market Committee. Consequently, he would support the proposal submitted by Chairman Martin.

Mr. Shepardson said he would agree with the thought expressed by Chairman Reed that the strength of the Federal Reserve System was in its component parts. Like Chairman Reed, he had a strong desire to preserve that kind of a system. As to the problem immediately before the Committee, he noted that in a large private corporation there was a treasurer or some similar official who carried out the fiscal policies of the company. These policies were effectuated through a commercial bank. The treasurer could call the bank and give instructions as to what he wanted done and in what amounts. In the case of the Treasury, where a Reserve Bank was acting as fiscal agent, it was his understanding that the Treasury gave instructions to the Reserve Bank as to what it wanted done and in what amounts. In the case of the Open Market Committee, which was representative of the whole Federal Reserve System, it was not feasible for the Committee to be in daily session and to make decisions on a day-to-day basis. Instead, the Committee normally formulated policy for a period of three weeks and delegated to the Account Manager the job of making day-to-day decisions in light of the prescribed policy. The Manager was in effect the corporate officer who gave instructions to the commercial bank, in this case the Reserve Bank selected by the Open Market Committee to execute transactions for the Open Market Account. The Committee could not conduct the actual financial transactions. Therefore, the Manager of the Account must be primarily responsible to the Committee, and there should be no question about that responsibility. Theoretically, the Account Manager might be an employee of the Open Market Committee and on the Committee's payroll. As such, he might be housed in the Reserve Bank, or certainly in close relationship to the Reserve Bank. However, because of the need for depth and training that Mr. Hayes had mentioned, such a procedure might be of questionable value in practice. There was an advantage in having the Manager also an officer of the Reserve Bank so that he could work more closely with the Bank's staff.

It seemed to him, Mr. Shepardson said, that it was important to show clearly the responsibility of the Manager to the Committee, since it was the function of the Manager to make day-to-day decisions implementing Committee policy. The function of the Reserve Bank was to effectuate transactions reflecting those decisions. On that basis, it seemed to him that the proposal submitted by Chairman Martin was sound. He did not think that it would detract in any way from the position of the New York Bank. The New York Bank, by its right of veto, could assure itself of the selection of an individual who was acceptable to it and who was compatible with the Bank's organization.

Mr. King expressed agreement with what Mr. Mills had said. The type of proposal submitted by Chairman Martin was more likely to preserve the regional concept of the System than an unclear delineation of responsibility. By statute, the Open Market Committee had a heavy responsibility, and it must delegate the implementation of its policy decisions. Therefore, the real question was the effective delegation of responsibility. In his opinion, the regional concept was far more likely to endure if there was a clear delineation of authority than if the Committee simply preserved a form that had existed in the past for one reason or another. He doubted whether the joint selection procedure actually would meet the need, for he thought that the Manager and Special

Manager had a direct responsibility to the Open Market Committee. As a member of the Committee, he would like to know that there was one man who could answer questions clearly in the event of any disagreement. As had been said, this was essentially a matter of form. However, critics of the Federal Reserve System had an opportunity to express themselves if the System followed procedures that were not logical. On this basis, he would favor the suggestion made by Chairman Martin.

Mr. Mitchell commented that although the Open Market Committee might not be the most powerful body of men in the world, it was the leading architect of monetary policy. In terms of execution of policy, its principal implement was the Account Manager. For the public record it should be clear that the Manager and Special Manager were responsible to the Committee, and that the Committee was responsible for their selection. For this reason he would favor the proposed change in the method of selection. From a practical standpoint he would have no objection to the joint selection procedure, but for the record he felt it would look better if the Committee made the selection of the Manager and Special Manager.

Mr. Fulton said he would align himself with those who had commented favorably on the joint selection procedure and on making it clear that the Account Manager and the Special Manager were officers of the Open Market Committee. He added that by reason of the Trading Desk being situated in the New York Bank and by reason of the presence at that Bank of one of the members of the Open Market Committee, that member could be alleged to wield an undue influence. Further, the Committee member from the New York Bank had been for years the Vice Chairman of the Committee. Therefore, it might be desirable to rotate the Vice Chairmanship among the members of the Open Market Committee rather than to have it always in New York.

Mr. Bopp commented that he had not heard until today about the possibility of a joint selection procedure. He leaned favorably toward that approach, although he had some concern about the mechanics of such a procedure. He was not particularly impressed by the personnel difficulties claimed for the Federal Reserve Bank of New York in the event of a change in the method of selection of the Manager and Special Manager, but he was concerned about the personnel problem from the standpoint of the Open Market Committee. If an adequate person could not be found at the New York Bank, he would not hesitate to go to another Federal Reserve Bank or to any other source to locate a man for the post of Manager or Special Manager. However, this would not provide the continuity that was desirable. If there was any doubt that the New York Bank had within its organization an individual on whom everyone could agree in advance, the thing to do would be to place a man in that Bank and train him. The element of continuity was important; the problem of the method of selection of a Manager or Special Manager went not only to the specific act of selection but to the development of individuals as well. Accordingly, while the idea of joint selection struck him favorably, the procedure should extend to the development of competent people. If the Committee should feel at any time that the New York Bank did not have appropriate individuals, the New York Bank should know that in advance, so that a person could be found who would be acceptable to everyone in a real sense.

Mr. Bryan commented, in regard to the contention that a change of the method of selection would reduce the institutional prestige of the New York Bank, that another organization established by statute--the Federal Open Market Committee--was one of the most important institutions within the Federal Reserve System; its prestige must also be considered. In the housekeeping section of the 1952 report of the Ad Hoc Subcommittee there were in his opinion more important things than the question of who initiated the selection of the Account Manager. He thought of this particular question as involving a matter of form that was important principally from the standpoint of the public record. He would be willing to accept the joint selection arrangement if it could be worked out to the satisfaction of a majority of the Committee. If not, he would be compelled to vote for Chairman Martin's suggestion.

Mr. Balderston referred to the observations that had been made previously regarding the fundamental distinction between policy direction and ministerial duties involved in the execution thereof. As noted, the Open Market Committee normally met at three-week intervals. In the interim, with problems of communication being what they were, it must rely on the Manager and the Special Manager to interpret the will of the Committee as they understood it. It was vital to the success of both areas of work that the Manager and Special Manager be looked upon, not only within the System but by the Government at large and by the financial community, as part of the policy direction of the Open Market Committee. As to ministerial duties, they must be carried on by the New York Reserve Bank.

Mr. Balderston went on to say that, like others who had spoken, he believed in the decentralized central banking system of this country. He was hopeful that it would be possible to continue this decentralization and that the principal coordinating agent of the System would continue to be a board, as distinguished from a single governor. There had been suggestions from time to time that the open market function be handled by a board located in Washington. In his opinion, however, such a move would be a fundamental blunder that would undermine the strength of the Federal Reserve System. The Reserve Bank Presidents should be represented on the Open Market Committee, not merely advisory to it. Therefore, he saw a real point in the suggestion that this was the time to make clear, by providing for the selection by the Open Market Committee of the Manager and Special Manager, that the Committee was the policy-maker with respect to the open market instrument and that its policies were implemented between Committee meetings by a Manager and a Special Manager who were officers of the Committee. It was important that the procedure followed be such as to bear the closest examination by the most outspoken critics of the System, and in his opinion the present procedure left the System exposed. For the Open Market Committee to pick the New York Bank for the performance of ministerial duties and delegate to that Bank the selection of the individuals who were to interpret policy during intervals between Committee meetings seemed to him to leave the whole Federal Reserve System vulnerable to criticism. Therefore, he would favor the proposal submitted by Chairman Martin.

Chairman Martin said he hoped everyone understood the intent of his suggestion. His thinking, in making the suggestion, went to the future of the Federal Reserve System as a system. His thought was not to take power away from any individual Reserve Bank. Everyone took pride in the work of the Reserve Banks, and the last thing in his mind would be to try in any way to detract from the prestige of any Bank. The method of selection involved a question of form rather than substance, but in his opinion the form was important. The idea of a system involved not one Bank but all Banks working together. It was with this thought that he had submitted his suggestion, which of itself was a compromise. He thought it important to make clear that in the selection of the Manager and the Special Manager the authority was vested in the Open Market Committee. Over a long period of years, there had been devoted Account Managers, including Messrs. Burgess, Sproul, and Rouse. Now the present Manager was going to reach the point of retirement in a relatively short time, and it would be necessary to select a new Manager. From the standpoint of the System, it seemed important that there be no question about the point of control in the selection of the Manager. Again he wished to emphasize that in his opinion the proposal he had submitted would in no way impair the institutional prestige of the New York Bank. He could sympathize with the position of Messrs. Reed and Hayes and welcomed the presentation of their views. However, it certainly was not the intent of the proposal to detract in any way from the status of the New York Bank.

The Chairman then said that he felt the Committee ought to dispose of this matter. Therefore, he would propose that the question be put to a vote.

Mr. Mills moved that Section 5 of Article II of the By-Laws of the Committee be amended, effective immediately, so as to read as follows, with a conforming change in the Rules on Organization and Information:

> Section 5. Manager and Special Manager of the System Open Market Account. - The Committee shall select a Federal Reserve Bank to execute transactions for the System Open Market Account. The Committee shall also select a Manager of the System Open Market Account and a Special Manager for foreign currency operations for such Account, both of whom shall be satisfactory to such Federal Reserve Bank. They shall serve at the pleasure of the Committee and shall attend all meetings of the Committee.

This motion was seconded by Mr. Shepardson.

Mr. Hayes noted that a vote on the motion of Mr. Mills would preclude the opportunity for an expression by the Committee members concerning the suggested alternate procedure of joint selection of the Manager and Special Manager. Accordingly, he moved that Mr. Mills' motion be amended to provide in effect that the Manager and Special Manager of the System Open Market Account be selected jointly by the Federal Open Market Committee and the Federal Reserve Bank selected to execute transactions for the System Open Market Account.

In order to insure a vote on Mr. Hayes' motion to amend, his motion to amend the previous motion was seconded by Mr. Balderston.

At this point Chairman Reed withdrew from the meeting.

A vote was then taken on the motion by Mr. Hayes to amend the previous motion by Mr. Mills, and the motion to amend was defeated.

Votes for the motion to amend the previous motion: Messrs. Hayes, Deming, Ellis, and Fulton. Votes against the motion to amend the previous motion: Messrs. Martin, Balderston, Bryan, King, Mills, Mitchell, Robertson, and Shepardson.

The motion to amend having been defeated, a vote was taken on the motion that had been made by Mr. Mills, and the motion was carried.

Votes for the motion: Messrs. Martin, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Mitchell, Robertson, and Shepardson. Vote against the motion: Mr. Hayes.

Chairman Martin then pointed out that at its meeting on March 6, 1962, the Open Market Committee had approved the selection by the New York Bank of Mr. Rouse as Manager of the Open Market Account and Mr. Coombs as Special Manager for foreign currency transactions until the adjournment of the Committee meeting at which his suggested change in the By-Laws was discussed, which meant that further action by the Committee was now necessary. He noted that Mr. Rouse was scheduled to retire from service with the New York Bank in the fall of 1963, but had expressed a desire to be relieved as Manager of the System Open Market Account prior to that time. He also indicated that pursuant to an understanding at a recent meeting of the Committee, a group composed of Messrs. Hayes, Balderston, and himself had been studying the qualifications of persons who might be recommended to succeed Mr. Rouse as Manager, that the group was prepared to make a recommendation, and that a memorandum would be submitted to the Committee.

In this connection, question was raised with regard to the most appropriate timing of a change in Managers, from the standpoint of both Mr. Rouse and his successor, and Mr. Hayes cited advantages that would accrue from Mr. Rouse's continuing as Manager for some further period of time. He added, however, that he had not yet thought the matter through to a specific recommendation as to what date might be most suitable for making the changeover effective.

It was also noted that although, according to the action taken by the Open Market Committee on March 6, 1962, its approval of the selection of Mr. Rouse as Manager and Mr. Coombs as Special Manager would expire with the adjournment of today's meeting, the amended procedure just adopted by the Committee for selection of the Manager and Special Manager called for approval of the Committee's action by the directors of the New York Reserve Bank. Mr. Hayes stated, however, that he felt confident that the directors, at their meeting on Thursday of this week, would approve the selection of Messrs. Rouse and Coombs as Manager and Special Manager, respectively.

Thereupon, upon motion duly made and seconded, and by unanimous vote, Mr. Rouse was selected as Manager of the System Open Market Account, to serve as such until further action was taken by the Open Market Committee.

Upon motion duly made and seconded, and by unanimous vote, Mr. Coombs was selected to serve as Special Manager of the System Open Market Account for foreign currency operations.

Consideration then was given to possible amendments to the Committee's By-Laws, Rules on Organization and Information, and Rules on Procedure, as presented in Mr. Hackley's memorandum of April 9, 1962, it being noted that one amendment to the By-Laws and to the Rules on Organization and Information had already been approved at this meeting, reflecting the change in method of selection of the Manager and Special Manager of the System Open Market Account.

Upon motion duly made and seconded, and by unanimous vote, the Committee's By-Laws, amended previously in one respect by action of the Committee at this meeting, were further amended, effective immediately, to place them in the following form:

ARTICLE I. MEMBERS

Section 1. Organization - Prior to the first meeting of the Committee on or after March 1 of each year, each member of the Committee representing the Federal Reserve Banks shall cause a record of his election and of the election of the alternate to serve in his absence to be forwarded to the Secretary of the Committee. If any question be raised as to the election or eligibility of such member or alternate, the Committee shall determine such question before permitting such member or alternate to participate in the meetings.

Section 2. Alternates - In the event a member is absent from a meeting of the Committee, his alternate, in attending the meeting, shall have the same status as the member for whom he is serving.

Section 3. Oath - Each member of the Federal Open Market Committee and each alternate shall take the same oath of office as that required by the Constitution for officers of the United States.

Section 4. Quorum - Seven members (including alternates present and acting in the absence of members) shall constitute a quorum for the transaction of business; but less than a quorum may adjourn from time to time until a quorum is in attendance.

Section 5. Meetings - The Committee shall meet in Washington, D. C. at least four times each year and oftener if deemed necessary. Meetings shall be held upon the call of the Chairman of the Board of Governors of the Federal Reserve System or at the request of any three members of the Committee. Notices of calls by the Chairman to other members shall be given by the Secretary. Requests of any three members for the calling of a meeting shall state the time therefor and shall be filed in writing or by telegram with the Secretary who shall forthwith notify all members of the Committee in writing or by telegram. When the Secretary shall have sent notices to all members of the Committee that a meeting has been requested by three members and of the time therefor, a meeting shall be deemed to have been called. Whenever any member of the Committee representing Federal Reserve Banks shall find that he will be unable to attend a meeting of the Committee, he shall promptly notify his alternate and the Secretary of the Committee in writing or by telegram, and upon receipt of such notice the alternate shall advise the Secretary whether he will attend such meeting.

Section 6. Conduct and Deliberations - The proceedings, deliberations, discussions, and actions of the Committee, except as required by law and except as authorized by the Committee, shall be strictly confidential, and no information shall be released except as authorized by the Committee and in the annual report required to be made to Congress by section 10 of the Federal Reserve Act as amended.

Section 7. Order of Business - The following shall be the order of procedure to be followed at meetings of the Committee:

1. The Secretary shall present the minutes of the last meeting of the Committee.

2. The Manager of the System Open Market Account and the Special Manager for foreign currency operations for such Account shall make their reports of operations for the System Open Market Account occurring since the preceding meeting.

3. The Committee Economist and other economists shall make such reports as may be appropriate.

4. The Committee shall then consider open-market policies.

By a majority vote of members present, the Committee may adopt a different order of business for any particular meeting.

ARTICLE II. OFFICERS

Section 1. Chairman and Vice Chairman of the Committee - At its first meeting on or after March 1 of each year the Committee shall elect a Chairman and a Vice Chairman to serve until the first meeting on or after March 1 of the next year. The Chairman of the Committee shall preside at all meetings thereof and shall perform such other duties as the Committee may require. The Vice Chairman shall perform the duties of the Chairman in the absence of the Chairman. In the absence of both the Chairman and Vice Chairman, the Committee shall elect an Acting Chairman.

Section 2. Secretary and Assistant Secretaries - At its first meeting on or after March 1 of each year the Committee shall elect a Secretary and one or more Assistant Secretaries to serve until the first meeting on or after March 1 of the next year. It shall be the duty of the Secretary to keep minutes of all meetings of the Committee and a complete record of the action taken by the Committee upon all questions of policy relating to open-market operations, and he shall record the votes taken in connection with the determination of open-market policies and the underlying reasons assigned therefor. He shall have custody of such minutes and records and shall perform such other duties as the Committee may require. In the absence of the Secretary of the Committee, an Assistant Secretary shall act as Secretary pro tem.

Section 3. Economist and Associate Economists - At its first meeting on or after March 1 of each year, the Committee shall elect an Economist to serve until the first meeting on or after March 1 of the next year. The Committee shall also from time to time, as it may decide, elect one or more Associate Economists. The Economist and Associate Economists shall prepare for the use of the Committee and present to it such information about business and credit conditions as will assist the Committee in the determination of open-market policies, and shall perform such other duties as the Committee may require.

Section 4. General Counsel and Assistant General Counsel - At its first meeting on or after March 1 of each year the Committee shall elect a General Counsel and an Assistant General Counsel to serve until the first meeting on or after March 1 of the next year. It shall be the duty of the General Counsel to furnish such legal advice as the Committee may require. In the absence of the General Counsel, the Assistant General Counsel shall act as General Counsel pro tem.

Section 5. Manager of the System Open Market Account and Special Manager for Foreign Currency Operations - The Committee shall select a Federal Reserve Bank to execute transactions for the System Open Market Account. The Committee shall also select a Manager of the System Open Market Account and a Special Manager for foreign currency operations for such Account, both of whom shall be satisfactory to such Federal Reserve Bank. They shall serve at the pleasure of the Committee and shall attend all meetings of the Committee.

Section 6. Filling Vacancies - At any meeting the Committee may fill any vacancy in the office of Chairman, Vice Chairman, Secretary, Assistant Secretary, Economist, Associate Economist, General Counsel, Assistant General Counsel, or Manager or Special Manager of the System Open Market Account.

ARTICLE III. AMENDMENTS

These by-laws may be amended at any meeting of the Committee by a majority vote of the entire Committee.

Upon motion duly made and seconded, and by unanimous vote, the Rules of Organization and Information, amended previously in one respect by action of the Committee at this meeting, were further amended, effective immediately, to place them in the following form, with the understanding that the amended Rules would be published in the Federal Register:

RULES OF ORGANIZATION

As Revised Effective April 17, 1962

SECTION 1--BASIS AND SCOPE

These rules are issued by the Federal Open Market Committee (hereinafter sometimes called the Committee) pursuant to the Administrative Procedure Act (60 Stat. 237; 5 U.S. C. 1001) and the Federal Reserve Act (sec. 12A, 48 Stat. 168; 12 U.S.C. 263).

Included therein are the rules specified by section 3(a)(1) of the Administrative Procedure Act.

SECTION 2--COMPOSITION AND MEETINGS OF COMMITTEE

(a) Members. The Federal Open Market Committee consists of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve Banks who are Presidents or First Vice Presidents of such Banks. The representatives of the Federal Reserve Banks, and an alternate for each representative, are elected in accordance with section 12A of the Federal Reserve Act for terms of one year commencing on March 1 of each year.

(b) Chairman and Vice Chairman. At its first meeting on or after March 1 of each year, the Committee selects a Chairman and a Vice Chairman from among its membership.

(c) Meetings. The Committee meets at Washington, D. C., on call by the Chairman of the Board of Governors of the Federal Reserve System or at the request of three members of the Committee, at least four times each year and oftener if deemed necessary.

SECTION 3--PERSONNEL

(a) Official Staff. The official staff of the Federal Open Market Committee includes its Secretary and Assistant Secretaries, General Counsel and Assistant General Counsel, and Economist and Associate Economists, who perform the duties indicated by their titles. These staff members are selected from among the officers and employees of the Board of Governors of the Federal Reserve System and the Federal Reserve Banks. In addition, one of the Federal Reserve Banks is selected by the Committee to execute transactions for the System Open Market Account; and the Committee selects a Manager of the System Open Market Account and a Special Manager for foreign currency operations for such Account, both of whom shall be satisfactory to such Federal Reserve Bank.

(b) Others. The services of other officers and employees of the Board of Governors of the Federal Reserve System and Federal Reserve Banks are made available and are utilized by the Committee as required.

RULES REGARDING INFORMATION, SUBMITTALS, AND REQUESTS

As Revised Effective April 17, 1962

SECTION 271.1--BASIS AND SCOPE

This part is issued by the Federal Open Market Committee (sometimes called the Committee in this part) pursuant to the Administrative Procedure Act (60 Stat. 237; 5 U.S. C. 1001) and the Federal Reserve Act (sec. 12A, 48 Stat. 168; 12 U.S.C. 263). It includes the rules specified by sections 3(b) and 3(c) of the Administrative Procedure Act.

SECTION 271.2--SUBMITTALS, PETITIONS, AND REQUESTS

(a) Place. The mailing address of the Federal Open Market Committee is: Federal Reserve Building, 20th Street and Constitution Avenue, Washington 25, D. C. The Committee customarily meets at the offices of the Board of Governors of the Federal Reserve System at that address.

(b) Method. All submittals, petitions, and requests, including requests for access to information, shall be made in writing and mailed to the Committee at the address stated in paragraph (a) of this section. Any petition or request shall be signed by the person making it, or his duly authorized agent, and shall, in so far as practicable, clearly, completely and concisely state his full name and address, the facts involved (including the purposes for which any unpublished information requested will be used if made available), the action desired, the person's interest in the matter, and the reasons why the petition or request should be granted.

SECTION 271.3--AVAILABILITY OF INFORMATION

(a) Federal Register. Rules describing the Committee's organization and procedure and any substantive rules or statements of policy which are formulated and adopted by the Committee for the guidance of the public will be published in the Federal Register.

(b) Policy Record. A complete record of the actions taken by the Committee during the preceding year upon all matters of policy relating to open market operations, showing the votes taken and the reasons underlying the actions, is included in each annual report made to Congress by the Board of Governors of the Federal Reserve System in accordance with section 10 of the Federal Reserve Act.

(c) Unpublished Information. Except as may be specifically authorized by the Committee, or as may be required in the performance of duties for, or pursuant to the direction of, the Committee, no person shall disclose, or permit the disclosure of, any unpublished information of the Committee to anyone, whether by giving out or furnishing such information or copy thereof, by allowing any person to inspect, examine or copy such information or copy thereof, or by any other means. Unpublished information of the Committee shall include all information concerning the proceedings, deliberations, discussions, and actions of the Committee and all information or advice coming to the Committee or to any member of the Committee or any officer, employee or agent of the Committee, the Board of Governors of the Federal Reserve System, or any Federal Reserve Bank, in the performance of duties for, or pursuant to the direction of, the Committee, whether contained in files, memoranda, documents, reports, books, accounts, records, or papers or otherwise acquired and whether located at the offices of the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or elsewhere: Provided, That it shall not include information which has been published in accordance with paragraphs (a) and (b) of this section or information which is available to the public through other sources.

(d) Reasons for Nondisclosure. The nondisclosure of unpublished information of the Committee generally is required in the public interest for one or more of the following reasons:

(1) Disclosure of unpublished information concerning policies with respect to future open market operations which are under consideration or have been adopted by the Committee, and of unpublished information which might aid in anticipating action by the Committee, would:

(i) Interfere with the accomplishment of the objectives of the Committee's actions taken with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country;

(ii) Permit speculators and others to reap unfair profits or other unfair advantages by speculative trading in securities, foreign exchange, and otherwise;

(iii) Interfere with the orderly execution of policies adopted by the Committee;

(iv) Result in unnecessary and unwarranted disturbance in the securities markets;

(v) Make open market operations more costly to the Federal Reserve Banks;

(vi) Interfere with the orderly execution and accomplishment of the objectives of policies adopted by other Government agencies concerned with economic and fiscal matters; and

(vii) Cause misinterpretations and misunderstandings, with possible resultant impairment of public confidence in the nation's financial structure.

(2) The Committee's unpublished information includes much that is furnished to it on a secret or confidential basis and its disclosure would:

(i) Have the effects described in subparagraph (1) of this paragraph;

(ii) Impede the necessary collection of information and advice, much of which cannot be obtained except on a confidential and voluntary basis; and

(iii) Unreasonably and unnecessarily disturb and interfere with individual privacy and confidential business relationships.

(e) Requests for Unpublished Information. Requests for access to unpublished information will be granted only if it clearly appears that disclosure of the information will not be contrary to the public interest for any of the reasons set forth in paragraph (d) of this section.

SECTION 271.4--SUBPOENAS

(a) Advice by Person Served. If any person, whether or not an officer or employee of the Committee, of the Board of Governors of the Federal Reserve System, or of a Federal Reserve Bank, has unpublished information of the Committee and in connection therewith is served with a subpoena, order, or other process requiring his personal attendance as a witness or the production of documents or information upon any proceeding, he shall promptly advise the Committee of such service and of all relevant facts, including the documents and information requested and any facts which may be of assistance in determining whether such documents or information should be made available, and he shall take action at the appropriate time to advise the court or tribunal which issued the process, and the attorney for the party at whose instance the process was issued, if known, of the substance of this part.

(b) Appearance by Person Served. Except as disclosure of the relevant information has been authorized pursuant to this part, any such person who has unpublished information of the Committee and is required to respond to a subpoena or other legal process shall attend at the time and place therein mentioned and respectfully decline to produce any documents or disclose any information or give any testimony with respect thereto, basing his refusal upon this part. If, notwithstanding, the court or other body orders the production of any documents, disclosure of any information, or giving of any testimony, the person having such unpublished information of the Committee shall promptly report the facts to the Committee for such action as the Committee may deem appropriate.

Upon motion duly made and seconded, and by unanimous vote, the Committee's Rules of Procedure were amended, effective immediately, to place them in the following form, with the understanding that the amended Rules would be published in the Federal Register:

RULES OF PROCEDURE

As Revised Effective April 17, 1962

SECTION 272.1--BASIS AND SCOPE

This part is issued by the Federal Open Market Committee (sometimes called the Committee in this part) pursuant to the Administrative Procedure Act (60 Stat. 237; 5 U. S. C. 1001) and the Federal Reserve Act (sec. 12A, 48 Stat. 168; 12 U.S. C. 263). It includes the rules specified by section 3(a)(2) of the Administrative Procedure Act.

SECTION 272.2--COMMITTEE ACTION

The function of the Committee is the direction and regulation of open market operations which are conducted by the Federal Reserve Banks. This involves the determination of the policies which are to be pursued with respect to open market operations by the Federal Reserve Banks with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country, together with consideration and action upon incidental matters relating to the manner in which such operations are to be conducted. The discharge of the Committee's responsibilities requires the continuous gathering of information and study of changing financial, economic, and credit conditions and other pertinent considerations by the members of the Committee and its personnel. These activities are closely interrelated with other activities of the Board of Governors of the Federal Reserve System and the Federal Reserve Banks and all relevant information and views developed by these organizations are available to the Committee. With this background, action is taken by the Committee upon its own initiative at periodic meetings held at least four times each year and oftener if deemed necessary. Attendance at Committee meetings is restricted to members of the Committee and its official staff, including the Manager of the System Open Market Account and the Special Manager for foreign currency operations for such Account, the Presidents of Federal Reserve Banks who are not at the time members of the Committee, and such other advisers as the Committee may invite from time to time. The Committee acts through the adoption and transmittal of directives and regulations to the Federal Reserve Banks. Operations in the System Open Market Account are conducted pursuant to directives issued by the Committee.

SECTION 272.3--NOTICE AND PUBLIC PROCEDURE

There ordinarily will be no published notice of proposed action by the Committee or public procedure thereon, as described in section 4 of the Administrative Procedure Act (sec. 4, 60 Stat. 238), because such notice and procedure is impracticable, unnecessary, or contrary to the public interest for one or both of the following reasons:

(a) Nondisclosure of information is required in the public interest for reasons stated in section 271.2(d) of this subchapter; and

(b) Expeditions and timely action, without the delay incident to such notice and procedure, is required in the public interest.

SECTION 272.4--EFFECTIVE DATE

Committee action ordinarily will be made effective on the date the action is taken because the nature of the subject matter and the action taken is such that the public interest and the proper discharge of the Committee's responsibilities so require.

SECTION 272.5--SUBMITTALS, PETITIONS, AND REQUESTS

Submittals, petitions, and requests may be made to the Committee at any time in the manner stated in section 271.1 of this subchapter. They will be considered by members of the Committee's official staff and, where appropriate, will be brought to the attention of the members of the Committee for consideration and any necessary action.

It was noted that no change had been proposed in the Committee's Regulation Relating to Open Market Operations of Federal Reserve Banks, as amended effective June 22, 1955. However, it was understood that the Regulation, in the following form, would be reprinted:

REGULATION RELATING TO OPEN MARKET OPERATIONS OF FEDERAL RESERVE BANKS

As Amended Effective June 22, 1955

SECTION 1

Pursuant to the authority conferred upon it by section 12A of the Federal Reserve Act, as amended, the Federal Open Market Committee prescribes the following regulations relating to the open market transactions of the Federal Reserve Banks.

The Federal Open Market Committee expressly reserves the right to alter, amend, or repeal this regulation in whole or in part at any time.

SECTION 2--DEFINITIONS

(a) Government securities. The term "Government securities" shall include bonds, notes, certificates of indebtedness, Treasury bills, and other obligations of the United States, including obligations fully guaranteed as to principal and interest by the United States.

(b) Obligations. The term "obligations" shall include all bankers' acceptances, bills of exchange, cable transfers, bonds, notes, warrants, debentures, and other obligations, including Government securities, which Federal Reserve Banks are authorized by law to purchase in the open market.

(c) System Open Market Account. The term "System Open Market Account" applies to Government securities and other obligations heretofore or hereafter purchased in accordance with open market policies adopted by the Committee and held for the account of the Federal Reserve Banks.

(d) Committee. The term "Committee" shall mean the Federal Open Market Committee.

SECTION 3--GOVERNING PRINCIPLES

By the terms of section 12A of the Federal Reserve Act, as amended, the time, character, and volume of all purchases and sales in the open market by Federal Reserve Banks shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

SECTION 4--FEDERAL OPEN MARKET COMMITTEE

(a) Functions. The Committee shall consider the needs of commerce, industry, and agriculture, the general credit situation of the country, and other matters having a bearing thereon and consider, adopt, and transmit to the several Federal Reserve Banks, regulations and directions with respect to the open market operations of such banks under section 14 of the Federal Reserve Act.

(b) Participation in System Open Market Account. The Committee from time to time shall determine the principles which shall govern the allocation among the several Federal Reserve Banks of Government securities and other obligations held in the System Open Market Account, with a view to meeting the changing needs of the Federal Reserve Banks.

SECTION 5--CONDUCT OF OPEN MARKET OPERATIONS

Each Federal Reserve Bank shall engage in open market operations under section 14 of the Federal Reserve Act only in accordance with this regulation and the directions issued by the Committee from time to time, and no Federal Reserve Bank shall decline to engage in open market operations as directed by the Committee.

Transactions for the System Open Market Account shall be executed by a Federal Reserve Bank selected by the Committee. Each Federal Reserve Bank shall make available to the Federal Reserve Bank selected by the Committee such funds as may be necessary to conduct and effectuate such transactions.

SECTION 6--PURCHASES AND SALES OF GOVERNMENT SECURITIES

No Federal Reserve Bank shall purchase or sell Government securities, for its own account or for the account of any other Federal Reserve Bank, except pursuant to authority granted by the Committee or in accordance with an open market policy adopted by the Committee and in effect at the time.

The Committee reserves the right, in its discretion, to require the sale of any Government securities now held or hereafter purchased by an individual Federal Reserve Bank or to require that such securities be transferred into the System Open Market Account in accordance with such directions as the Committee may make.

SECTION 7--OTHER OPEN MARKET OPERATIONS

Subject to directions of the Committee and the following conditions, each Federal Reserve Bank may engage in open market operations other than the purchase or sale of Government securities:

(1) Each Federal Reserve Bank, as may be required from time to time by the Committee, shall report all such transactions to the Secretary of the Committee.

(2) Only acceptances and bills of exchange which are of the kinds made eligible for purchase under the provisions of Regulation B of the Board of Governors of the Federal Reserve System may be purchased: Provided, That no obligations payable in foreign currency shall be purchased or sold for the account of the Federal Reserve Bank except in accordance with directions of the Committee.

(3) Only bills, notes, revenue bonds, and warrants of States, counties, districts, political subdivisions, or municipalities which are of the kinds made eligible for purchase under the provisions of Regulation E of the Board of Governors of the Federal Reserve System may be purchased.

(4) No Federal Reserve Bank shall engage in the purchase or sale of cable transfers for its own account except in accordance with the directions of the Committee.

Chairman Martin stated that the Committee's Economist, Mr. Thomas, was planning to retire from active service with the Board of Governors in the relatively near future and to accept an assignment outside the Federal Reserve System. Therefore, Mr. Thomas had asked to be relieved of his duties as Economist of the Open Market Committee, effective at the conclusion of this meeting.

Mr. Shepardson stated that in the light of the foregoing development the Board of Governors had given consideration to the situation from the standpoint of responsibilities of members of its staff. He then recommended that Mr. Noyes, currently Associate Economist, be appointed Economist of the Federal Open Market Committee to succeed Mr. Thomas and that Messrs. Daniel H. Brill, Robert C. Holland, and Albert R. Koch be appointed Associate Economists.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the request of Mr. Thomas to be relieved as Economist was approved, Mr. Noyes was appointed Economist to succeed Mr. Thomas, and Messrs. Brill, Holland, and Koch were appointed Associate Economists, it being understood that all of these actions would be effective at the adjournment of this meeting and that Messrs. Noyes, Brill, Holland, and Koch would serve in their designated capacities until the election of their successors at the first meeting of the Committee after February 28, 1963, unless in the meantime any one of them discontinued his official connection with the Board of Governors, in which event he would cease to have any official connection with the Federal Open Market Committee.

At this point Mr. Coombs was called into the meeting for discussion of System operations in foreign currencies and related matters.

Prior to this meeting there had been distributed to the Committee a report on System Open Market Account and Treasury operations in foreign currencies and on exchange market conditions for the period March 27-April 11, 1962, along with a supplemental report for the period April 12-April 16, 1962. Copies of these reports have been placed in the files of the Federal Open Market Committee.

There had also been distributed to the Committee, under date of April 11, 1962, a copy of the Special Manager's reply dated April 10 to an inquiry from Mr. Ellis, who had requested further information regarding recent operations of the Treasury's Stabilization Fund in German marks.

There had likewise been distributed to the Committee, under date of April 11, 1962, a memorandum prepared by Mr. Roy Bridge, Deputy Chief Cashier of the Bank of England, summarizing his understanding of conversations with Messrs. Young and Coombs regarding technical aspects of a possible swap arrangement between the Federal Reserve and the Bank of England.

At the beginning of the discussion, Mr. Mills expressed himself to the effect that, in light of developments with respect to the System's program of foreign currency operations and his review of the minutes pertaining to the discussions of such operations and related matters, he had almost reached a point where he would be more inclined to delegate greater authority for those operations to a subcommittee of the Open Market Committee, in line with one of the alternatives that had been discussed when the program was under consideration. He had become increasingly apprehensive, from the standpoint of both the Federal Reserve and foreign central banks that had or might become parties to transactions with the Federal Reserve, about the involvement in this sensitive area of as many people as were involved through the consideration of these matters by the full Open Market Committee and the recording of the Committee's deliberations.

The response made by Chairman Martin was to the effect that he would suggest that the Committee feel its way along for the present on an experimental basis, having in mind considerations such as Mr. Mills had mentioned.

The Chairman then turned to Mr. Coombs, who commented in supplementation of the reports and other material that had been distributed to the Committee since the March 27 Committee meeting. Mr. Coombs noted, among other things, that there had been no System foreign currency operations during the period since the preceding meeting. With regard to his correspondence with Mr. Ellis on the Stabilization Fund operations in German marks, he indicated that any further comments or questions by members of the Committee would be welcomed. He added that the Committee might want to consider further whether, in the event of short-run developments in the future comparable to those that had occasioned the Stabilization Fund operations in German marks, it would be thought appropriate to employ the System's holdings of marks in a similar fashion with a view to moderating temporary market pressures.

With regard to the Bridge memorandum, which was to be used by Mr. Bridge in briefing Bank of England and British Treasury officials regarding a possible Federal Reserve-Bank of England swap arrangement, Mr. Coombs indicated that he would appreciate having the view of the Committee as to whether, in further negotiations relating to such an arrangement, Federal Reserve representatives should hold firm to the principle of swaps at flat rates, with sterling held by the Federal Reserve placed on a parity earnings-wise with dollars accruing to the Bank of England. This would be in contrast to effecting swaps on the basis of forward rates, with prevailing market rates of interest applied to any sterling held by the Federal Reserve and dollars held by the Bank of England.

After some discussion of this point, it was the unanimous view that in any further negotiations Federal Reserve representatives should continue to stand on the position they had taken.

Mr. Coombs also commented on developments with respect to the possibility of a short-term swap arrangement involving the Federal Reserve and the Swiss National Bank, an integral part of which might be, for reasons that he indicated, a Swiss-U.S. Treasury arrangement of a medium-term nature. After responding to certain questions, he indicated that he was not in need of instruction from the Committee at this particular point. He would propose to listen to any Swiss proposal, consult with the U.S. Treasury, and report back to the Committee.

Mr. Coombs said that there had been some overtures from Belgian authorities regarding the possibility of a swap or borrowing arrangement, but that at this moment an arrangement with the U. S. Treasury seemed a somewhat more likely possibility than an arrangement involving the Federal Reserve.

Mr. Coombs also commented that this week's Treasury statement would show a reduction in U. S. gold stock of $75 million, and that prospective orders indicated a further reduction of at least $35 million by the end of the current month.

Since there had been no System foreign currency transactions since the Committee meeting on March 27, 1962, no need existed for the Committee to take action at this meeting to approve, ratify, and confirm any such transactions.

The meeting then recessed.

The meeting of the Federal Open Market Committee held on April 17, 1962, reconvened at 1:30 p.m. with the following attendance:

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Bryan
Mr. Deming
Mr. Ellis
Mr. Fulton
Mr. King
Mr. Mills
Mr. Mitchell
Mr. Robertson
Mr. Shepardson

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

Mr. Swan, President of the Federal Reserve Bank of San Francisco

Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hexter, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Brandt, Furth, Garvy, Hostetler, Noyes, and Willis, Associate Economists
Mr. Rouse, Manager, System Open Market Account
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. Heflin and Francis, First Vice Presidents of the Federal Reserve Banks of Richmond and St. Louis, respectively

Messrs. Eastburn, Ratchford, Baughman, Jones, Strothman, Tow, Coldwell, and Einzig, Vice Presidents of the Federal Reserve Banks of Philadelphia, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco, respectively

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 March 6, 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 27 through April 11, 1962, and a supplementary report covering the period April 12 through April 16, 1962. Copies of both reports have been placed in the files of the Committee.

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

The money market has been generally comfortable during the period since the last meeting of the Committee. Federal funds traded for the most part at 2-3/4 or 3 per cent and dealers' financing needs, which have been swollen by recent additions to their inventories, have been met without undue difficulty. (Incidentally, those inventories have reached quite high levels recently, nearly up to last November's peak.) Yesterday, for example, when dealers had to pay for their acquisitions of new one-year bills, a financing need of more than $800 million was readily accommodated, with the rate on Federal funds lower at the close of the day than at the opening.

At the same time there has been a sizable expansion of the reserve base in the recent period. According to the latest estimates, total reserves in the first three weeks of April have been averaging about $160 million above the 4 per cent growth line calculated by the Board staff; during February and March total reserves averaged about $40 million below that guideline level.

The recent Treasury financing operation was successful. The new 3-3/4 per cent bonds of 1968 moved to a premium of nearly 3/8 of a point in when-issued trading, but with the announcement of the steel price increase the issue fell back to par as the entire market weakened. By yesterday it had regained some of the earlier premium, and closed at par and 3/32. At this point it is still not possible to assess the impact on the Government securities market of the decision not to raise steel prices. At least initially, it appears that the main effect is being exerted not so much by the rescinding of the price rise but by the manner in which that reversal came about -- which seemed to put a chill into the equity market and thereby strengthened the bond markets.

Notwithstanding the good performance of the new Treasury issue -- particularly in the adverse atmosphere that developed just after the steel price increases were announced -- there is still a question of whether this offering has provided a significant test of the underlying strength of the market. There had in fact been a widespread expectation that the Treasury was going to take advantage of the recent favorable atmosphere by selling a new offering of bonds, and the expectation was that the amount would be larger than $1 billion and that the term might well be longer than the 6-1/3 year maturity that was chosen. By giving the market a smaller and shorter offering than had been expected, there was naturally a warm reception and accordingly not a very exacting test.

It thus remains to be seen how strong the market will be when the Treasury presents its refinancing program toward the end of this month. In the meantime there will be some further opportunity to test the market -- first in reacting to the somewhat better turn of recent business news and second in responding to the rather large volume of corporate and tax-exempt issues to be offered in the next few days. As you know, the Treasury's May 15 maturities total $7.7 billion, of which $5.7 billion are publicly held, while the June maturity -- which will probably be included in the forthcoming operation -- amounts to $4 billion, with $3.5 billion publicly held. The System Account holds $1.8 million of the May 15 maturities and $360 million of the June bonds. The Treasury will meet with its advisory committees during the first part of next week and expects to announce terms on Thursday, April 26.

Thereupon, upon motion duly made and seconded, the open market transactions in Government securities during the period March 27 through April 16, 1962, were approved, ratified, and confirmed.

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

The economic facts just beyond our reach, rather than those we have at hand, often seem to be most relevant to a systematic appraisal of the current economic situation. Today, when our immediate problem is one of characterizing the degree of vigor of the current expansion, this seems especially true. For example, an accurate evaluation of the strength of markets for residential housing is especially critical at this stage--and the starts figure for March is expected at any moment, but is not yet available. From the data that is at hand on residential construction, the situation certainly does not appear strong, but there is room for a wide range of judgments as to just how weak it is. March starts will throw some light on what is happening--but I suspect it will be several months before we see a clear pattern emerging.

By and large, the further improvement that is reflected in the March data is reassuring. The one-point gain in industrial production was broadly based and the recovery in business equipment was especially gratifying. The increase in personal income is also impressive.

In the retail area, sales of autos and Easter finery appear to have been strong, both in March and in the first ten days of April, despite rainy weather over much of the eastern half of the country last week. On the other hand, if we exclude autos, remaining retail sales showed very little change from February to March, thus leaving some doubt as to whether we have experienced a fundamental shift in consumer buying enthusiasm or only another erratic jiggle.

Much the same sort of impression emerges from the data on employment and unemployment. The small further decline in unemployment from 5.6 per cent to 5.5 per cent is certainly welcome--as is the 50,000 increase in nonfarm employment--but these changes are hardly sufficient to provide a basis for a substantially more optimistic appraisal of the outlook.

In the wake of one of the most widely noticed price changes in history and its equally notorious recision, it seems inadequate to say simply that prices have remained generally stable in recent weeks, but this is, in fact, the case. There are no signs of dominant upward price movements, or of inflationary expectations in markets. Further evidence of this general attitude is found in the fact that the stock market has tended to drift downward, and markets for fixed income securities have been generally strong.

Taken altogether, the economic picture is not ebullient, but neither are there signs of weakening--if anything, it looks a little stronger than it did three weeks ago. The major uncertainties are housing, which I mentioned at the outset; capital expenditures, and consumer spending--especially for durables other than autos.

With substantial additions to the civilian labor force in prospect, more and more jobs will be needed to push unemployment below the present 5-1/2 per cent rate. The prospect that these jobs will materialize seems to rest heavily on a revival of both residential and nonresidential construction, and the collateral demands that would accompany expansion in these areas. No one can say with certainty whether this expansion will come--it depends on many factors, some of a highly subjective nature. It does seem, however, that the continuation of relatively easy conditions in credit markets--especially the longer term market--would be helpful to such expansion.

Turning again to housing for an example, there can be little doubt but that renewed lender enthusiasm for GI mortgages had played an important part in the recent revival of applications for GI guarantees; and further, that the availability of homes under this relatively generous program will attract some buyers who would not otherwise enter the market. There also can be little doubt that favorable markets for their securities are encouraging State and local governments to move ahead with current programs and to push forward their plans for other needed facilities.

The extent of the economy's response to changes in credit cost and availability can never be precisely quantified, but this does appear to be one of the times when the level of water in the trough is likely to have some effect on the amount the horses choose to drink.

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

Our international deficit rose in March to $360 million, including net gold sales of $150 million. The figure was higher than the combined deficits for January and February, even after making allowance for the effect of the year-end window dressing operations. Fragmentary data for the first two weeks of April indicate little if any improvement.

We do not yet know the reasons for the size of the March deficit. In February, our trade surplus had been very large, with exports at a record annual rate of nearly $22 billion (seasonally adjusted) and imports remaining at an annual rate of $15-3/4 billion. We may suspect that the trade surplus was not so large in March--a suspicion based on the consideration that some of the February increases in exports, such as commercial aircraft, military goods, and agricultural products, probably were of a temporary nature. Indicators of machinery exports, however, remain encouraging.

Our capital outflow was lower than during the fourth quarter of 1961, but it remained high even though the covered interest-rate differential between New York and London showed a sizable advantage in favor of New York. Japan again was the largest single borrower, drawing mainly on commitments made last year. The attractiveness of the New York market for foreign borrowers, both as to trade credits and bond issues, probably rests as much on its technical facilities, its freedom from restrictions, and its depth, breadth, and resilience as on the level of its interest rates. This makes it difficult to eliminate an outflow of capital without destroying those features that make the United States the financial center and leader of the free world.

The international situation continues to present about the same picture as for the last three months or so: continuing boom in Continental Europe, little if any advance in other industrial countries, and inflationary trouble in many less developed areas. The German balance-of-payments surplus is smaller than a year ago but many other European countries continue to gain reserves.

German officials showed increased preoccupation with domestic price and wage increases and the possibility of an international deficit. Although Germany still has a trade surplus of $1 billion annual rate, even as cool-headed and internationally-minded men as Minister Erhardt and President Blessing have been talking as if Germany were about to become uncompetitive internationally. This sort of talk could have serious consequences for our payments situation: if Germany were to resume restrictive monetary policies, we should again face the prospect of large movements of funds into Germany, including movements from the United States. Moreover, by pressing upon the dollar-mark exchange rate, such capital movements might well increase international market uncertainties about the dollar.

On international gold and exchange markets, earlier improvements in dollar exchange rates have not continued. Only the gold market has been satisfactory, with the price slightly lower than three weeks ago; even there, demand seems to have increased these last few days.

Sterling remains very strong, in spite of the successive reductions in Bank Rate, and the United Kingdom continues to accumulate dollars and to convert them into gold. Only a sale of gold to the United States by a hard-pressed Latin American country prevented our gold stock from declining further last week.

The German mark and the Swiss franc have quite recently moved up, possibly in connection with the steel price flurry. The Netherlands guilder was even stronger, perhaps in expectation of a flow of dollars to the Netherlands resulting from the forthcoming increase in the capital of the Philips Lamp Corporation.

With the French franc and the Italian lira continuing at the ceiling, all major European currencies are again distinctly above par against the dollar, and we have been disappointed in hopes that we could pick up a few currencies at or below par to add to our small foreign exchange holdings for use on a rainy day.

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

Banking and credit developments during the past three or four weeks have shown some contrasts to those in the period preceding the last meeting of the Committee. Reserve availability and total bank credit have both increased more than seasonally, whereas previously the reserve supply had been more restricted. While time deposits at banks have continued to increase, demand deposits have also increased, following several weeks of little change or decline. Required reserves have increased, after seasonal adjustment, and this demand has kept the short-term money market under some pressure.

Yields on three-month Treasury bills continued to fluctuate within a narrow range, while yields on longer-term issues declined further to the lowest levels since last summer. Yields on new issues of corporate bonds have recently been lower than those on seasoned issues. Yields on tax-exempt securities, largely under the pressure of demands from banks, have remained at the low levels reached earlier. Even mortgage rates have tended to decline slightly, and FNMA has become a net seller of insured mortgages.

It seems evident that some fundamental forces are working toward reducing the general level of interest rates. The decline in long-term and medium-term rates in recent weeks has occurred notwithstanding some increase, though moderate, in economic activity and in borrowing.

New capital issues by corporations and by States and local governments have been in relatively larger volume and the calendar for April is large. The Treasury has reduced its debt less than is usual for the first quarter of the year. Bank loans did not show the usual seasonal decrease in the first quarter of this year, notwithstanding a sizable increase in December, and bank holdings of securities other than Governments have increased more this year than in the same period of any other year.

Steadiness in short-term Treasury bill rates, while other rates declined, may be attributed in large part to the weekly increases in the offerings of three-month bills, which have by now aggregated over $1 billion. Federal Reserve policy of combatting any tendencies for short-term bill rates to decline has also been a factor. Recent increases in required reserves have put some pressure on the market. Federal funds have generally continued in the 2-3/4 to 3 per cent range, and banks' lending rates to dealers have been at 3 to 3-1/4 per cent, as dealers' holdings of bills have increased to near-record levels.

With respect to the immediate situation, in the first two weeks of April, according to partial data, total credit expansion at city banks was negligible, following a substantial increase in March. Business loans declined less than usual, following a normal increase in March, while loans to finance companies, which increased considerably in March, declined more than usual in the first two weeks of April. Real estate and consumer loans continued to increase, while loans on securities declined. Holdings of securities other than Governments showed a further sharp rise, while holdings of Governments continued to decline.

Increases in time deposits seem to have slackened somewhat in April, reflecting actual decreases at New York City banks. U.S. Government deposits, which had increased in March, declined sharply in the first two weeks of April. Private demand deposits, however, increased in the last part of March and have held the increase. This would indicate a seasonally-adjusted increase in the money supply after several weeks of little change.

Bank reserves have been somewhat more plentifully available relative to demands during the past three weeks than they were during most of March. At the same time seasonally adjusted required reserves have increased substantially and are now at a higher level than at any time, except temporarily in the week ending January 4. At the same time total reserves have increased even more and free reserves have been around $450 million or more, compared with a March average of $375 million.

The Federal Reserve has supplied reserves through fairly large open market operations, more than offsetting drains from currency demands and foreign operations. Because of increased reserve needs, these purchases by the System have been possible without bringing about a decline in short-term interest rates. This week System holdings are being reduced largely through retirement of repurchase contracts. Moderate purchases will be needed in subsequent weeks to cover expansion in required reserves and varying drains on the supply of reserves.

Continuation of interest rates, other than the shortest money-market rates, at relatively low levels, notwithstanding maintenance of a fairly steady level of short-term rates, has a bearing upon the determination of current monetary policy. Perhaps the most plausible explanation is an increase in financial saving relative to borrowing demands. The unprecedentedly large increase in commercial bank time deposits since the first of the year has been accompanied by little reduction in the rate of accumulation of other financial assets. Demand deposits, to be sure, have declined somewhat more than usual, and on a seasonally adjusted basis may be little larger than they were in the first half of December. But this lack of growth is hardly sufficient to account for the expansion in time deposits.

The apparent increase in saving is consistent with the slow rate of economic advance in the past few months. The underlying causes of increased saving and a slower rate of growth in spending for consumption and investment are matters of judgment. In any event the situation is not one that justifies administrative increases in prices of steel, nor is it one that tends to stimulate over-investment or speculative excesses. Hence, any tightening of restraints on bank credit expansion can still await definite indications that credit and monetary expansion is becoming excessive.

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

It would hardly be possible to comment on the business situation without some mention of last week's dramatic steel price episode, I am sure all of us felt that the price rise announcement introduced important new uncertainties into an already uncertain outlook. Certainly the decision to rescind the price increase was a most welcome event, even though the controversy pointed up various weaknesses in American industry -- not confined to the steel industry -- that still cry for solution. I am thinking of the need for greater investment in the most modern equipment, for which the answer may lie mainly in more enlightened tax policies. But this is probably not an area where monetary policy can make a very major contribution. At the same time, we can breathe a sigh of relief at the removal of what might well have been a strong stimulus to a revival of inflationary tendencies in the country's economy. At least this unfortunate episode had the merit of focusing the attention of the entire country on price stability as a vital national goal and demonstrating that this goal enjoys widespread public support.

As we look at the business situation, apart from this temporary disturbing element, we can find more definite signs of improvement than were available at the last meeting. Consumer buying, in particular, has strengthened markedly, with both automobile and department store sales picking up briskly in March and in the first part of April. Industrial production and construction contracts and permits also registered further gains. However, even if economic activity accelerates in the coming months, the unemployment situation will probably remain a serious problem, especially since the recent decline in the labor force will probably give way to a resumption of growth in the labor force. Hard core unemployment has not changed significantly in recent months, and actually rose somewhat in March.

Turning to the statistics on credit, I am struck by the large gain in total commercial bank credit both in March and over the whole period since the February 1961 business trough. The 8.2 per cent rise in that period was well above the increases registered in the comparable phase of the 1954-55 and 1958-59 expansions, and the gap has been growing wider each month. It is true that this disparity has been due entirely to the behavior of investments and not to loan demand, which has been at best moderate in the last month or so, especially in the business loan category. Much of the recent sharp rise in bank investments has consisted of other than Government securities. The relatively modest rise of 2.4 per cent in the money supply since the February trough should be viewed in the light of the 16 per cent rise in time deposits in the same period. The 7.3 per cent increase in total liquid asset holdings of the public since the February trough is somewhat greater than in the comparable period of each of the two earlier expansions. Bank liquidity, as measured by the ratio of liquid assets to deposits, remains ample both in New York and outside of that city.

Meanwhile, the balance-of-payments situation remains serious and shows further signs of deterioration. I realize that comments along these lines have been a regular feature of the New York Bank's presentation for many meetings past, and there may be some members of the Committee who feel that we are unduly alarmist. But the fact that the country has so far avoided a major international payments crisis should give no feeling of assurance that our warnings have been inappropriate and our fears exaggerated -- for this country's ability to withstand heavy deficits and accompanying gold drains is not unlimited, and we have yet to see any convincing evidence of a real turn in the tide. There is little comfort in the first quarter deficit, which was at the annual rate of about $2-1/4 billion, i.e., considerably more than that of the first quarter of 1961. And I think it should raise a question in the minds of the monetary authorities, particularly in view of the fact that this deficit occurred in spite of a sizable improvement in the merchandise trade balance in February. Bank loans to foreigners and foreign capital issues in the United States market are becoming an increasing element in the payments drain. A Japanese loan and an International Bank bond issue loomed large in the first quarter -- and special transactions of similar and even greater magnitude, especially in the area of long-term official borrowings in this market, are already planned for the second quarter. One of our officers had an opportunity recently to talk with several officers of the foreign departments of New York banks as to what lies behind the hectic pace of short-term capital outflows in this country. My associate was impressed by the virtual unanimity among these bankers on one point -- the dominant role of the banks' relatively easy reserve position in causing them to reach out for foreign loans. Incidentally, I have been interested to see that the recent statistics on total reserves have indicated that they are well ahead of the informal guideline of a 4 per cent annual growth rate since November which has been discussed from time to time in these meetings.

In our policy deliberations, we must naturally give consideration to the Treasury's impending financing program, which suggests the need for preserving an "even keel" during a period commencing about a week from now and extending into the latter part of May. While I feel that neither the length of time available to us for near-term actionnor the present state of the domestic economy would warrant any dramatic change in policy at this meeting, I do believe that the ample liquidity clearly visible in the economy, coupled with the recent signs of a somewhat improved rate of business expansion, would warrant our placing a little more emphasis on the very troublesome and perplexing international aspects of our problem. With this in view, I think we should seek a somewhat higher market rate structure, with the 90-day Treasury bill rate in the 2-3/4 to 3 per cent range -- preferably nearer the upper end of this range. It would seem to me quite appropriate to permit free reserves to average somewhat lower than they have in recent months in order to achieve a moderately firmer rate structure and a little less feeling of ease on the part of the banks. If the Committee should agree on such a policy, I would think that the wording of the directive might be modified accordingly. I should think it would be desirable for the directive to take cognizance of the steel price episode and the growing need to encourage firmness in short-term interest rates. There would seem to be no need at this time to consider a change in the discount rate.

Mr. Bryan said that available figures for the Sixth District were climbing upward quite uniformly but, like the national figures, did not seem to indicate any boom. As to monetary policy, Mr. Bryan said he saw no reason for any essential change. Total reserves were approximately on the projected guideline at present and, beyond adjusting for seasonal influences and allowing for some growth factor, he would make no change at this time. Neither would he recommend any change in the discount rate.

Mr. Bopp reported that the economy of the Third District was following the same general trend as the national economy. In February most of the indicators reflected either sluggish advances or actual declines. The limited information for March suggested that conditions had improved. Yet unemployment was still relatively high--9 of the 13 areas reporting in February had unemployment rates greater than the nation's--and there was no evidence of vigorous growth in the Third District economy.

Similarly, the banking scene had been relatively placid. Banks had been in a comfortable reserve position. Their time deposits were still going up rapidly and their demand deposits had stopped falling. The most noteworthy development was a fairly sharp increase in business loans which, so far, seemed to be faster than seasonal and faster than the increase nationally. Until recently, loans had been lagging behind the United States.

The implications of this for policy seemed to him to be clear cut, Mr. Bopp said. The pace of economic expansion was not rapid enough to risk any lessening of ease. He would make no change in the discount rate, and the current policy directive issued three weeks ago was, in his opinion, still quite appropriate.

Mr. Fulton reported that the complexion of business activity in the Fourth District had changed somewhat for the better in recent weeks despite curtailment of steel production. Most of the brighter news was in consumer-related fields and employment. Construction was up, with the emphasis on residential building, not single dwellings but apartment buildings with many small suites.

Mr. Fulton then commented on the steel situation, noting that the recent price episode was distressing in the Fourth District and that the implications for the future were not yet clear. Some cooling-off period might be necessary before an unbiased appraisal could be made. Order cancellations and delivery deferments were said to be quite heavy, with some companies reporting more cancellations than new orders.

Inventories that had been built up beyond current needs probably would be liquidated before substantial new orders were placed. Steel output for the first quarter of this year was around 31 million tons, with the second and third quarters estimated at 25 and 23 million tons, respectively, and the fourth quarter placed hopefully at 27 million tons. This would make a total of 106 million tons for the year, compared with 98 in 1961. Despite recent developments, the steel companies apparently intended to go forward with their plans for plant and equipment improvement. One company that accounted for 2 per cent of total steel tonnage was planning to spend around $140 million for expansion, of which $100 million would be borrowed money. This program would increase capacity, enable greater flexibility of product mix, and increase tonnage considerably. At the same time, manpower requirements would decline, thus illustrating the difficulty of the employment problem.

Insured unemployment in the District showed a marked decline after mid-March, but 8 of the 14 major labor market areas were still classified as having 6 per cent or more unemployment. Plant and equipment expenditures nationally were expected to be up about 8 per cent from 1961, but one company in the District had indicated that its expenditures would be divided about 60 per cent abroad and 40 per cent in the United States.

Department store trade in the District had improved recently, but for the year to date was only about 1 per cent ahead of a year ago, compared with a national average gain of 3 per cent. Bank loans had increased, but then declined again in the latest week. All in all, the District was progressing, but not rapidly.

As to policy, Mr. Fulton concluded that the present posture continued to be appropriate. The degree of availability of reserves to the banking system seemed suitable to the economic situation, and he would contemplate free reserves of around $400 million. He would not recommend a change in the discount rate, and in his opinion the existing current policy directive was still appropriate.

Mr. Mitchell noted that this was a period when it was difficult to judge the strength of consumer demand. Data on housing starts for March were not yet available, and in view of the date of Easter this year it would probably be necessary to total the months of March and April to understand what consumers were doing. Although automobile sales were encouraging, consumer behavior was still somewhat on the uncertain side, and the reaction of the business community to consumer behavior was something that could not be appraised at this time.

As to the international situation, Mr. Mitchell expressed the view that there may have been a tendency at Committee meetings to "cry wolf" too often. The Open Market Committee has been fully alerted to the potential seriousness of the problem. In recent and current actions, the Treasury and the Committee are bringing into being structural monetary defenses against any sudden deterioration in the position of the dollar. These steps should strengthen confidence as well as provide a backstop for any adverse developments. At the moment it seemed to him that the

Committee's primary allegiance should be to the internal situation and that whatever influence the Committee could exert should be directed toward encouraging expansion of domestic activity. It was his conclusion that the existing policy directive should be renewed and that the degree of ease should continue to be about the same as at present.

Mr. King said that he would agree generally with Mr. Mitchell. The covered interest rate differential was favorable to New York as against London, but this did not appear to be having any marked effect, and he did not feel that the situation argued strongly in favor of a larger differential. In summary, he felt it appropriate to continue monetary policy approximately as at present. While he was not entirely comfortable in this position, he did not know of anything better to suggest.

Mr. Shepardson said that in his view the international situation continued to be of serious concern. It seemed to him that the prospective figures on the Federal budget did not lend much encouragement from that standpoint. However, he did not believe that a change in monetary policy would be constructive at this time. As to total reserves, he would prefer to stay within the 4 per cent growth line rather than to run much above it. Otherwise, the Committee might well continue for the next three weeks on the present basis.

Mr. Robertson presented the following statement of his views:

> It is gratifying to observe some moderate upward movement in the latest readings of a number of business indicators. Only further experience can show to what extent such movements are more than an unseasonally good sequel to the depressing

effects of an unseasonally bad winter. In the meantime, however, monetary policy has the chance to create a climate of credit availability conducive to further business expansion, and I think it should do so. Any prospects for near-term price inflation have certainly been dampened by the steel price roll-back. Productive resources continue underutilized, and the improvement in our balance-of-payments position since last fall has lessened the constraints upon policy from this quarter.

With free reserves moving back up to what I would regard as more desirable levels, we have begun once more to achieve some increase in money supply along with the continuing rise in time deposits. We should not overestimate the stimulative effect of the recent moderately higher free reserve figures; the substantial advance shown in required reserves behind private deposits in the latest two weeks was abetted by a large but temporary shift of deposits from government to private hands. Nonetheless, an underlying movement of monetary and credit expansion was apparent and took place without untoward reaction upon money market interest rates. All this evidence seems to me to argue for a continuation of the somewhat easier monetary policy of the last three weeks - with a free reserve target in the neighborhood of $450 million.

A time like this also offers an opportunity to move away from the fixation with short-term interest rates that remains in the directive. The longer we preserve the appearance of a stabilizing operation - if not an outright peg - in the three-month bill rate, the more difficulties are likely to arise in eventually trying to move away from it. Accordingly, I would suggest that we eliminate the last provision of the current directive relating to short-term rates, and thus arrive at a directive to the Manager over the next three weeks that speaks unequivocally of the reserve availability he is to foster.

With respect to the last clause in the first paragraph of the directive, which called for giving recognition to the need to maintain a viable international payments system, Mr. Robertson said he was unable to see how this clause was pertinent to the conduct of open market operations. The directive should call for recognizing the country's adverse balance of payments, but in his opinion the balance of the sentence was out of place.

Mr. Mills said nothing had occurred since the previous Committee meeting to alleviate his concern about the plight that had developed from what he considered to have been faulty policies, relating particularly to the stabilizing, or pegging, of the three-month Treasury bill rate. In exposition of his views, Mr. Mills presented the following statement:

> The monetary and credit policy sponsored by a majority of the members of the Federal Open Market Committee over many months past can best be described by the word "drift." Allegiance to the concept of a free market has been implicitly disavowed and a controlled money market has been substituted that has an artifically produced interest rate structure as its purpose. Financial markets are "drifting" without the benefit of the kind of direction that should be forthcoming from a current in interest rates developed out of natural market forces that serve to allocate available funds to their most constructive economic uses.
>
> The Committee will not be burdened with a repetition of my previous adjurations of the need for policy changes. Suffice it to say that the difficulties of making corrective policy adjustments will be compounded in proportion to the length of time that the need for change is left unattended to. As a case in point, the compacting of the interest rate curve, as reflection of Federal Reserve System policy actions, has undoubtedly been a cause of the unusually heavy dealer positions in U. S. Treasury bills. Repeated public statements from authoritative sources proclaiming an easy credit policy, and accompanied by clearly observable policy intentions to peg the floor for U. S. Treasury bill yields, has understandably encouraged dealers to position U. S. Treasury bills in very substantial volume with the riskless speculation that the passage of time will lower the yields of their longer-term holdings as they approach maturity and permit their sale at a capital gain. Similarly, repeated instances in which the System Open Market Account has acquired longer-term U. S. Government securities out of dealer holdings when it has been desired to

supply reserves without putting downward pressure on U. S. Treasury bill rates has offered the dealers a certain and profitable outlet for such securities. This is not a desirable or becoming situation for the Committee to have been drawn into. Moreover, if a still easier credit policy should be ill-advisedly undertaken, the U. S. Government securities dealers would automatically be tendered handsome windfall profits.

The inconsistencies and pitfalls of Federal Reserve System policy actions can be traced in still other directions. Commercial bank investments in longer-term fixed interest obligations and in real estate mortgage loans in order to earn back the cost of higher rates of interest paid on time and savings deposits, and an extension of the maturities in their U. S. Government securities investments for similar reasons, with the encouragement of public officials, are reducing their liquidity at a time when high loan-to-deposit ratios give eloquent evidence of the undesirability of such actions. A future change in Federal Reserve System monetary and credit policy from ease to restraint under these circumstances can go beyond any beneficial effects obtainable by locking the commercial banks into their investments because of heavy depreciation, and to the point of choking off an appropriate degree of credit availability. This kind of development would be aggravated still further if at such a juncture a massive shift from time to demand deposits should occur, subjecting the commercial banks to the discipline of much higher required reserves.

More moderate Federal Reserve System policy actions aligned to the principles of a free market would have avoided the existing and potential problems that have been detailed. A crying need for policy changes continues. The approaching and recurrent financing needs of the U. S. Treasury make their adoption well-nigh impossible at the present time and also hinder the kinds of actions called for by our balance-of-payments problems. I believe, therefore, that there is now no choice but to continue present policies for a further period, knowing the dangers involved and, in the meanwhile, seeking every opportunity for making realistic policy changes.

Mr. Clay commented that the real question concerning the domestic economy continued to be the pace of its upward movement. While it seemed likely that expansion would continue in the months ahead, it was difficult to construct a convincing case for a vigorous upswing despite the improvement of recent weeks. Analysis of prospective developments in the various sectors of demand did not point to the aggregate expansion in economic activity that would be necessary for a satisfactory utilization of manpower and other resources. This situation existed at a time when several important measures of economic activity had shown only modest improvement for many months.

The Committee had followed an expansionary monetary policy throughout the period of the current business upswing, and economic conditions appeared to call for continuation of such a policy. In view of the moderate rate at which economic activity had been expanding for several months, however, the Committee might well give particular attention to encouraging some further downward movement in long-term interest rates.

The formulation of appropriate monetary policy for domestic considerations had been handicapped throughout the current business upswing by the international balance-of-payments problem. Policy with respect to the Treasury bill rate for international considerations prevented that rate from falling very low even during the recession and had been a major factor in its level ever since. Indirectly, that policy not only had affected other short-term market rates but also had been an important factor in the relatively high level of long-term interest rates despite moderate Federal Reserve open market purchases of longer maturities of Treasury issues.

Under present conditions in the domestic economy, Mr. Clay said, it would appear desirable for long-term interest rates in the various sectors of the financial markets to decline to somewhat lower levels for the added stimulus that they might give to important sectors of economic activity. Money and capital markets already had responded to business and financial news by adjusting interest rates downward in recent weeks, except for the 90-day Treasury bill rate that had been influenced by Federal Reserve and Treasury operations. Underlying forces in financial markets might favor an extension of this tendency without any added encouragement other than continuation of the current degree of ease. It was not possible at this time to gauge the strength of the forces that were moving long-term interest rates to lower levels. In his opinion, the Committee should view this development in long-term interest rates favorably and should stand ready to give encouragement through open market operations to a continuation of this trend. This development would be facilitated if purchases of coupon issues made to offset Treasury bill sales, or to supply additional reserves, were made in long maturities as distinct from short-term coupon issues.

In view of current economic developments, Mr. Clay recommended no change in the Reserve Bank discount rate.

Mr. Scanlon said that Seventh District economic news since the date of the previous Committee meeting had been almost uniformly good. The opinion was firming that the year 1962 would see a continuous improvement in activity. Some observers had a tendency to revise downward their original projections for the year as a whole, but this was not universal.

Increased strength had appeared in consumer buying, Mr. Scanlon said. As to steel, his comments would be generally similar to those of Mr. Fulton. Although the settlement of the steel price controversy had resulted in some requests for deferment of deliveries, local sources indicated that there was no rush to cancel orders. Automobile sales were up in March, and many firms had scheduled additional overtime. The outlook for the second quarter was for 1.8 million new car sales. With projections of 1.4 million and 1.56 million for the third and fourth quarters, respectively, the total for the year would be slightly over 6.3 million, exclusive of about 340,000 imports. If these estimates were correct, new car sales would be about 14 per cent greater than in 1961.

Department store sales had been strong in recent weeks, and construction contract awards for the first two months of this year were 17 per cent above the high level of a year ago. There has been no great change in residential building in the District despite the availability of mortgage money and slightly lower interest rates. Electric power use by industrial firms showed little change from January to February, but was far above the levels of a year ago in all centers.

As to banking developments, business loans rose 5 per cent from February to March, while consumer loans remained sluggish. There was a rise in mortgage holdings, affected by one large transaction at a Detroit bank. Interest rates continued easy, at approximately the same level as in the early part of 1961. Reserve pressures incident to the April 1 Cook County personal property tax date had largely abated. The basic reserve deficit of Chicago banks dropped from $371 million to less than $100 million in the past two weeks.

Over all, Mr. Scanlon said, the trend of business activity seemed to be one of modest improvement. In view of the absence of pressures on manpower or plant capacity, and in light of the moderate nature of credit demands, he would make no change in monetary policy at the present time. Like Mr. Robertson, he had some question about the last clause in the first paragraph of the current policy directive. However, he would not be inclined to make a change in the directive at the present time. Neither would he recommend any change in the discount rate.

Mr. Deming reported that despite adverse weather, Ninth District economic trends seemed to be tracking those of the nation, perhaps showing a bit more than national average strength. With prospects for a more orderly iron ore shipping season than had been characteristic of the past few years, a 60 to 65 million ton shipments total was estimated for this year, perhaps 10 million tons more than last year but some 20 to 25 million tons smaller than the best years. Still, if shipments this year fulfilled expectations, the iron ore year would be the best in the past five.

Mr. Deming noted that the Minneapolis Bank, following the lead of the Richmond Bank, had developed a panel of strategically located bankers and businessmen who were well informed on local conditions and gave the Bank their opinion as to the course of economic developments in their areas over the next several weeks. The results of a recent sampling were as follows:

	Per cent
Stability at present levels	9
Some improvement probable	51
Improvement fairly certain	36
Some decline probable	4
	100

In the first quarter, Mr. Deming continued, city bank loans increased more in dollar volume than in any other first quarter in the past 12 years. The gain in dollars, however, was approached in the first quarters of both 1955 and 1959, and in percentages those quarters showed slightly bigger gains than the 1962 first quarter. Loans at country banks seemed to be performing in about the usual fashion. Loan-deposit ratios at both classes of banks continued lower than the loan behavior would suggest, simply because deposits had fallen far less than seasonally, reflecting very strong time deposit gains. At city banks the percentage increase of time deposits in the first quarter was larger than in any other district. At country banks the gains had been about the same as the national average.

Turning to the national picture, Mr. Deming said he shared to a degree some of the concern that had been expressed by Mr. Mills. Taking the conventionally defined money supply and time deposits combined, the growth in the first quarter of this year was significantly larger than in the first quarter of any of the past 12 years. This had added substantially to bank liquidity; the decline in long-term interest rates might indicate that banks had somewhat more money than they needed. New York and Chicago banks had representatives in the Ninth District hunting for loans, and it had been inferred that they were also looking for loans abroad. The current degree of liquidity, coupled with the pressure for higher earnings, had evidently pushed the banks into somewhat more aggressive action, and this could lead to some difficulty. He was also concerned about the dealer situation that had developed. In view of the forthcoming Treasury financing, along with the uncertainties in the current economic situation resulting from the recent steel price episode, he would recommend no change in monetary policy at the present time. This recommendation did not make him particularly happy, however, and he agreed with Mr. Mills that the Committee should be thinking about what changes in policy might be made as soon as there was freedom to move. He would not change the current policy directive at this time, except perhaps to take account of the forthcoming Treasury financing program. While he had some sympathy with Mr. Robertson's point about the clause in the first paragraph of the directive that called for giving recognition to the need to maintain a viable international payments system, he was inclined to feel that it would cause more trouble to take the clause out than to leave it in the directive. He would not recommend changing the discount rate at this time.

Mr. Swan reported that the Twelfth District situation had continued to improve, but that the latest figures reflected some crosscurrents. The Los Angeles-Long Beach area--the largest labor market in the District--recently was reclassified from an area of substantial unemployment to one of moderate unemployment. At the same time, however, it appeared from incomplete figures that the unemployment rate in the Pacific Coast states may have risen fractionally in March. If so, this would reflect a slight decline in farm employment in Washington and, in California, a larger increase in the labor force than in employment.

Automobile and department store sales had been strong. In steel, the District was not important compared to the Fourth and Seventh Districts, but there was a lesser decline in production after the end of the wage negotiations than nationally, probably reflecting differences in product demands. With more concentration in the Twelfth District on construction steel, tin plate, and pipe, one would expect a seasonal pickup in any event. In lumber, the over-all situation had not changed much, but the movement of new orders and output in Western pine was relatively favorable compared to recent months, considerably more so than in the case of Douglas fir. In combination, there had been a slight upward price movement.

District banks were still in a surplus position. They continued to be net sellers of Federal funds, and borrowings from the Reserve Bank were nominal. In the three weeks ended April 4, loans and investments of weekly reporting banks increased. There was a rather sizable increase in holdings of other than U. S. Government securities, which was in line with the tendency on the part of some banks to go into State and local government issues. The dollar figures reflected some acquisitions of shorter-term public housing securities, particularly by one large bank.

Mr. Swan commented that the over-all situation seemed to be one of considerable uncertainty, even with the continuation of some improvement in business activity. In the present circumstances, it seemed to him that the System should not add to the uncertainties by making any particular change in monetary policy. Rather, it should continue to supply reserves in amounts somewhat greater than seasonally required. Continuation of such a policy would suggest free reserves of around $450 million, with a bill rate around or somewhat below 2-3/4 per cent. The imminence of Treasury financing would seem to support the maintenance of an even keel, and in any event this would be consistent with his interpretation of what was required by the business situation. He would not recommend a change in the discount rate, and he would continue the existing directive, with possibly a reference to the Treasury financing. Like Mr. Robertson, he had some question about the clause in the directive that called for giving recognition to the need for maintaining a viable international payments system.

Mr. Irons indicated that there was continuing improvement in several areas of the Eleventh District economy, with some signs of increasing capital expenditures. Construction was at a record high in March, with particular concentration in the major cities. Employment was higher in March. As to retail sales, he would prefer to wait and look at March and April together. However, recent comments by leading retail trade people indicated that they were encouraged by the current level of department store sales. The agricultural situation was generally favorable, but crude oil production was still down. Altogether, while it was rather difficult to distinguish seasonal from cyclical trends, conditions were generally satisfactory. Businessmen seemed to be satisfied, with no pessimism or great concern detected. Business was good in all of the major centers of the District, with Houston verging on boom conditions.

On the financial side, bank loans and investments were up, demand deposits were down, and time deposits continued to rise substantially. The banks reported a considerable degree of liquidity, and funds were readily available to meet appropriate loan requests. Banks were tending to invest in longer-term securities in an effort to cover the higher rates of interest paid on savings deposits. Borrowing from the Reserve Bank was nominal. Sales of Federal funds had been averaging a little higher than purchases, with all but a couple of the city banks being net sellers more often than net purchasers.

As to policy considerations, Mr. Irons said he believed there had been an improving business situation. Activity appeared to be moving ahead a little each month, and on quite a solid basis. Despite some uncertainties, the economy seemed to be moving forward. He was inclined to feel that the providing of reserves may have been a little on the liberal side. It was his impression that banks, insurance companies, and savings and loan associations were looking hard and far to do something with their money. Further, he doubted whether additional reserves, if supplied, would be a strong stimulative force, and the balance of payments was still a major problem, the importance of which should not be minimized. However, in the period ahead there would be Treasury financing, so he would suggest that the Committee continue essentially the policy that it had been following, with a leaning toward slightly less ease if that could be accomplished without overt or direct action. If free reserves should drop to $250 million, he would not buy securities quickly to push them up to $400 or $450 million; instead, he would wait for a day or so and see what happened. This was not to say that he was advocating a policy of less ease at this time, with the Treasury coming to market and a number of uncertainties in the picture. However, if circumstances should so develop, he would not be disturbed if free reserves were to drop somewhat below the levels at which they had been running.

Mr. Irons said he would not suggest changing the current policy directive at this time. He did not consider it necessary to insert language regarding the Treasury financing; everyone was aware of the situation, and such reference would subsequently have to be deleted. Further, he would not favor changing the directive in any way that would seem to lessen the importance of the international situation. He would not recommend any change in the discount rate.

Mr. Ellis said he saw no changes in the regional or national economic situation of such nature as to require extended comment. At the Boston Reserve Bank's recent Regional Outlook Conference, there was a tendency on the part of the participants to back away from the earlier degree of optimism somewhat. Their estimates for gross national product in the fourth quarter were now around an annual rate of $570 billion. Current evidence suggested that trade and service activities in New England were probably stronger than manufacturing activities. Automobile sales and department store sales were well ahead of a year ago, and also ahead of the comparable pre-Easter weeks in 1960.

Loan demand in the latter part of March caused the gain for that month as a whole to be the largest in several years. Reports for recent weeks seemed to indicate some slowing down in the rate of growth of time and savings deposits, which rate had previously exceeded the national average.

Turning to policy, Mr. Ellis said that although he shared some of the concern expressed by Mr. Mills regarding the degree of liquidity of the banking system, he felt that the System could have done no less than it did if it wanted to use monetary policy effectively. He concluded that the policy of recent months and weeks had quite properly been stimulative. While the banks had more reserves than they needed, that was almost the definition of a stimulating policy. Further, it would also be appropriate, in his opinion, to continue the stimulating effect of monetary policy for the immediate future. There was some evidence that the next turn in policy might be in the direction of a little less ease, but this did not seem to be the time for such a change. In terms of guidelines, it seemed appropriate to continue to support a growth trend of around 4 per cent in total reserves, and to aim for free reserves in the neighborhood of $400 million, with the short-term bill rate at about 2-3/4 per cent and Federal funds in the same area.

On the directive, Mr. Ellis recalled that the phrase with respect to maintaining a viable international payments system was introduced at a time when the System was moving into foreign currency operations. While he held no particular brief for the specific wording, he considered it important not to weaken the recognition given to international aspects of the current situation. Like Mr. Irons, he would look with disfavor on a general policy of injecting standard language into the directive in advance of each Treasury financing and deleting the language thereafter.

Mr. Francis reported that Eighth District conditions had not changed a great deal since the previous Committee meeting. Total business activity continued about level. Manufacturing activity was up somewhat, but total manufacturing employment had not gained. Bank debits for the first quarter were about equal to the last quarter of 1961. As in the nation, unemployment was declining slightly, but over-all employment had not gained. Construction contract awards were down somewhat. Farm income was a little better thus far this year than a year ago, primarily because of late marketing of some of the 1961 crops and a slight increase in prices over the comparable period a year ago.

Mr. Heflin said that business activity in the Fifth District continued at a fairly high level, and without any indications of significant change. There was no definite evidence of weakness, but at the same time there were no real signs of any vigorous increase. Construction seemed to offer the best chance for improvement in the near future. In many parts of the District, building operations were delayed more than usual by weather conditions from January through March. In recent weeks, however, some contractors had been offered more work than they were able to undertake. As soon as weather permitted, activity should increase sharply, especially in the residential field. Recent data showed the textile industry operating at a high and slightly rising level, but manufacturers expressed slightly less optimism than a few weeks ago. The furniture industry also continued to operate at close to peak levels for the season, but the outlook was a little less certain than it had been earlier, perhaps due in part to the fact that the industry was awaiting results of the spring furniture shows. In bituminous coal, the recent direction of production, employment, and shipments had been moderately downward, in contrast with earlier hopes and expectations. Retail sales had lagged because of adverse weather conditions and the lateness of Easter. The most recent data for department stores showed a significant gain, but generally the improvement did not seem to be much more than normal for the season. While unfavorable weather had delayed some farming operations, farm prospects generally were still good. Business loans at weekly reporting member banks continued relatively weaker in the District than in the nation as a whole.

Mr. Balderston said that for the period immediately ahead he would favor continuing present policy and observing an even keel. He went on to say that two points were puzzling to him. The first was how much weight should be given to the rapid rise in time deposits. The money supply, as usually defined, had increased only 1-3/4 per cent from a year ago, but deposit turnover had risen 7 per cent in the same period. Presumably, turnover had gone up, not only as against a year ago but also as against the last quarter of 1961, because of the shift of deposits. Thus, he was perplexed as to what weight should be assigned to demand and to time deposits in studying the supply of money. He was also perplexed as to how much liquidity was seeping out to foreigners in the form of credit from American banks. The practice of requiring borrowers to maintain compensating balances probably tended to offset some of the rate differential. He would like to continue to feed credit to the United States economy for some time to come, but this was useless if any substantial part of the credit being provided for domestic use was seeping out of the country. In any event, there appeared to be nothing to do for the next three weeks except to maintain an even keel.

Chairman Martin commented that he was somewhat disturbed by the liquidity side of the picture as it had developed. However, he did not feel that any substantially different monetary policy could have been justified on the basis of what had transpired. If loan demand had been stronger, the liquidity situation would have been different, but it was difficult to gauge such things.

It seemed clear to him, the Chairman said, that in view of the steel wage and price developments, maintenance of the status quo was justified right now if such a policy ever was justified. With regard to the current policy directive, particularly the clause therein that called for giving recognition to the need to maintain a viable international payments system, he was interested in the comments that had been made. Although he did not coin the phrase, its intent had been clear to him, but apparently it was not clear to others. This was typical of the difficulties encountered in trying to compose a directive. He had thought that the clause clearly was intended to recognize the need for an effort to keep the gold exchange standard functioning, which was in line with the purpose of the System's foreign currency operations. To others, however, the words apparently did not spell out the intent effectively or perhaps did not suggest an appropriate goal.

With regard to today's meeting, Chairman Martin said he did not think there was need for a great deal of summarization. Some minor points could be made with respect to the comments around the table, but it seemed to him that essentially the Committee was talking about maintenance of the status quo. With possibly one or two exceptions, that appeared to be what the Committee was advocating today.

The Chairman then inquired whether anyone wished to comment on this statement of the consensus.

Mr. Mills suggested that a definition of the status quo might comprehend free reserves of $450 million or of $400 million. It was his feeling that an appropriate interpretation would comprehend the lower of the two levels. This was a level that seemed to produce economic and financial results such as the Committee had in mind.

Chairman Martin turned to Mr. Rouse and said he would assume that the Account Management had not tried to push free reserves to $450 million in recent weeks any more than it had aimed at $350 million in the preceding weeks.

Mr. Rouse replied that this was correct. There had been the matter of Treasury financing and large associated flows of funds. Also, the reserve projections had on occasions been quite inaccurate, and this had been a complication. As to facilitating the market flows of funds, he had understood this to be in accord with the Committee's wish, which had seemed to contemplate something of an atmosphere of resolving doubts on the side of ease. The Desk was concerned about the smoothness of the money market, and this concern happened to result in a higher level of free reserves. He agreed that the $400 million figure would more nearly reflect what he understood to be the temper of the Committee than the higher figure, if one were to aim directly at the level of free reserves in conducting open market operations.

Messrs. Robertson and Mitchell indicated that they would prefer to aim at $450 million rather than $400 million.

Mr. Hayes said that he regarded the Chairman's statement of the consensus as accurate. However, he would vote against the policy embodied in that consensus because of the lack of emphasis on the deteriorating international situation. He found it difficult to accept Mr. Robertson's statement that an improved balance of payments since last autumn had lessened the need for attention to the international situation, since he regarded the improvement as almost entirely a seasonal matter. Looking at developments against a year ago, he was concerned about what the balance of payments might look like later this year. With regard to Mr. King's statement about the covered arbitrage differential on three-month bills, admittedly it was presently in favor of New York against London, but he did not think one could afford to lose sight of the fact that the whole range of rates on credit had a bearing on the flow of funds. With regard to Mr. Mitchell's comment about the mounting of defenses, he assumed this had reference to monetary arrangements, including the System's program of foreign exchange operations. While these moves were highly desirable, they could not be expected to turn the balance of payments around. In his opinion, the Federal Reserve should try to do its part in every reasonable way.

Chairman Martin commented that he could not forego this opportunity to say once again that he regarded the balance-of-payments situation as serious. While he did not want to say that there would be a crisis and while he certainly was not suggesting that a crisis was necessarily around the corner, the situation conceivably could end up that way. At the same time, it was his conviction that changes in monetary policy of a minor nature were not going to have any effect on that problem. There was a risk that the System ought to take in trying to promote the domestic economy. On the other hand, the record should not indicate in any way that the seriousness of the balance-of-payments problems was being minimized.

The Chairman inquired whether there were members of the Committee other than Mr. Hayes who would like to express themselves as dissenting from the consensus, and no comments were heard. The Chairman then inquired of Mr. Rouse whether the latter had any comments on the existing policy directive, and Mr. Rouse replied in the negative.

Thereupon, 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 in 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, Deming, Ellis, Fulton, King, Mills, Mitchell, Robertson, and Shepardson. Vote against this action: Mr. Hayes.

All of those present except the members and alternate members of the Committee, Messrs. Swan, Francis, and Heflin, and Messrs. Sherman and Rouse then withdrew from the meeting.

Chairman Martin referred to discussions from time to time in the past regarding the publication of minutes of meetings of the Federal Open Market Committee, noting that the question had been brought up again by reason of the fact that the minutes covering all meetings held in calendar year 1960 had been furnished to Congressman Patman as Chairman of the Joint Economic Committee, that he understood they had been seen by a number of persons, and that in the course of time there would be published an analysis of those minutes prepared by members of Mr. Patman's staff. The suggestion had been made that it would be desirable if the Committee's minutes were to be published so as to permit all interested persons to review freely the record of policy discussions and decisions. He then called upon Mr. Balderston for comment.

Mr. Balderston stated that he believed it desirable to make the minutes of the Federal Open Market Committee available to scholars for the decade of the 1950s. Specifically, he would propose that they be published for the period 1951 through 1960 in the form approved by the Committee and without additional interpretative comments. He would include in the published record the minutes of the meetings of the executive committee for the period 1951 to June 1955 in which month that committee was abolished. Mr. Balderston stated that he believed the Committee and the Federal Reserve System were at a disadvantage in getting interested members of the public to understand the goals of the Federal Reserve and how the System sought to achieve them. Some of the System's critics now had access to information not available to scholars generally. His view was that scholars, whether favorable or unfavorable to the System, should have access to the minutes so that they could make an objective analysis on the basis of the record. In response to a question from Mr. Deming as to whether this called for publication of the minutes, or whether they could be made available in some other manner, Mr. Balderston said that he was thinking of publication so that they would be available not only at the Federal Reserve Banks and at the Board's offices, but also in college libraries. In this way, teachers or students of finance or others would have ready access to them. He also stated, in response to Mr. Deming's question as to whether he was proposing regular publication from here on out, that he did have such publication in mind. Mr. Balderston went on to say that this raised one of the critical points: how much lag there should be between the meeting covered by a given set of minutes and their publication. He had thought earlier in terms of a lag of three to five years, but the fact that the minutes for 1960 were now available to a limited group outside the Committee complicated the use of such a lag period.

Mr. Deming said that he was not especially disturbed about making available minutes for a past period but that he was disturbed about a procedure that would commit release of future minutes. He was thinking of this particularly in terms of the foreign currency operations in which the Committee had recently engaged.

Mr. Hayes stated that he granted the weight of some of the considerations that Mr. Balderston had brought up, particularly that making the minutes available would provide a record that would permit a defense against use of minutes out of context by those who already had access to them for the year 1960. Conceivably this could provide information that the public should have and that might be useful in a number of ways. On the other hand, Mr. Hayes said that there were counter arguments, some of which related to a lag of time before release of the minutes and some of which applied more or less permanently. If published, there should be sufficient lag to avoid the danger of anyone reading into the picture a position taken by the Committee currently or possibly one that would be taken in the near future. Also, if it were known that future minutes would be released, there was some risk of hurting the atmosphere of discussion at Committee meetings through inhibiting frank expressions of view. Everyone at a meeting should be free to take as frank a position as he desired, Mr. Hayes said, and he should not be held to account too strongly for views tentatively expressed. While he could not see much advantage to making the minutes available, he did not believe that much would be lost by doing so for the years 1959 and 1960.

On the matter of giving adequate information on System operations, Mr. Hayes said that he was quite concerned about the sense of inadequacy felt by many persons in the System on this point. He wondered whether the Committee should not tackle a more frequent publication of the policy record, perhaps quarterly, and whether it should not contemplate an article in the Federal Reserve Bulletin at quarterly intervals similar to the articles now published on a quarterly basis by the Bank of England. Mr. Hayes concluded his remarks with a statement that he was not enthusiastic over publication of the Committee's minutes but, if the majority wished to go ahead, he did not feel violently opposed to doing so.

Mr. Ellis stated that he was enthusiastically against making the minutes of the Committee available to the public. He questioned whether they were of primary interest to monetary analysts. These persons already know a good deal about the policy actions. From the record of policy actions published annually they know the Committee's position and the reasons for that position. The minutes would add information on the performance of individuals, and he doubted that this would be of interest to the monetary economists. His conclusion was that the minutes would not be of substantial advantage to the true monetary economist and he did not think the urge for access to the minutes came from that source. Those persons would much prefer more timely analytical reports of actions of the Committee. Also, as Mr. Hayes had mentioned, there was the undesirable effect on Committee discussions that could be anticipated in the event of a decision to publish the minutes. There would be a tendency for those at the meetings to elaborate the statistical presentations and to compress discussion of controversial matters, Mr. Ellis thought, which in many cases would tend to distort the basic purposes of Committee discussions. Once the Committee started publishing the minutes, it would be extremely difficult to reverse the process. There would also be a tendency to yield to requests for making the minutes available on a more nearly current basis. If there were logic in publication of the Committee's minutes, then the same logic would lead to publishing minutes of other actions on monetary policy such as on discount rates, reserve requirements, margin requirements, and so on. Mr. Ellis questioned that publication of the minutes would offset the potential danger that he thought would result--perhaps had already resulted--from access of certain persons to the 1960 minutes. He suggested that the best defense for the System against misuse of materials made available was either to make a direct response to any reports requiring comment, or to ignore the attacks. On the question of more information, Mr. Ellis said that he thought the Committee could move in that direction perhaps through quarterly publication of the policy record, preparation of Bulletin articles such as Mr. Hayes had mentioned, and provision of other information. This procedure, in his opinion, would be more likely to provide effectively for better public information.

Mr. Irons said that the comments by Mr. Ellis were quite convincing. On the other hand, while those objections might be valid, it still seemed to him that if members of the Congress sought the minutes, the Committee was likely to make them available. The discussions of foreign currency operations raised an additional problem, and he would look upon those discussions as somewhat different from the minutes of the regular Committee discussions. If the minutes were to be made available at all, he would lean toward their publication for interested persons generally. He would be happier if they were not made available, but if the decision was to release them, his preference would be to make them available for a period of perhaps the past ten years without resolving now the question of what would be done in the future.

Mr. Swan expressed the view that a much better job of explaining the System's position could be done through preparation of periodic analytical material, perhaps on a quarterly basis, than by publishing the Committee's minutes. Such an article would necessarily be based on policy record entries but would be in a different form. He believed that such periodic articles should be prepared regardless of what decision is reached about publishing the Committee's minutes. As to publication, he felt that the fact the Committee had made one year's minutes available to a Congressman on a confidential basis did not necessarily call for publishing the minutes over a ten-year period. He did not think that the Committee should be in a position of trying to hide anything, but what was needed was perspective. For that reason, he would lean toward Mr. Balderston's thought of a lag of three years or perhaps five years between the time of a meeting and any publication of the minutes for the meeting.

Mr. Deming expressed views similar to those of Mr. Ellis. While he did not feel strongly, he was concerned that any action taken might create problems for the future if it implied publication with a short lag interval. He thoroughly agreed with the desirability of preparing articles, perhaps at quarterly intervals, explaining the role of monetary policy but, on balance, he would prefer not to publish the Committee's minutes.

Mr. Scanlon stated that he, too, agreed with the views expressed by Mr. Ellis and would prefer not to have a procedure adopted whereby the minutes would be published regularly.

Mr. Clay's statement indicated agreement with the views expressed by Mr. Ellis. For one thing, a procedure for publishing the minutes would bring about perhaps unconsciously a change in the nature of the Open Market Committee's meetings. Inevitably members would be conscious of the record, and this would tend to inhibit expressions of views and testing of views with the freedom now practiced. Mr. Clay felt that a much better job of explaining monetary policy could be done by preparation of appropriate periodic articles than by publishing the minutes.

Mr. Heflin felt strongly that the Committee should not adopt a policy of publishing the minutes as such. Little would be accomplished by such a procedure and if publication were undertaken it probably would lead only to further demands for additional materials.

Mr. Mills stated that he would favor publication of the minutes up through the year 1960 and, after discovering the reception accorded those minutes, would deal with the question of future publication. His feeling was that responsible scholars who had the minutes at their disposal would, in their own minds, be able to recreate the background atmosphere in which policy decisions were reached. He did not have much sympathy with the idea of quarterly disseminations because they inevitably would be slanted and biased to justify decisions recently reached by the Committee.

Mr. Robertson stated that the views expressed by Mr. Mills were essentially the same as his. He thought that the Committee would be forced to issue something whether it wished to do so or not. The Congress would insist on disclosure regarding Committee discussions. In his judgment, the Committee would be in much better position if it took the lead. His preference would be to make the minutes available here in Washington, perhaps at the National Archives, and at each Reserve Bank rather than to publish and distribute them generally. There should, of course, be an appropriate lag. It would be preferable to have a longer lag than one year, but just how much was needed was a question. The minutes for 1960 having been made available, he could see no reason for not making them available for all prior years, since, for example, 1951.

Mr. Shepardson was inclined toward the issuance of a current summary report of open market operations such as had been suggested by several persons at this meeting. On the question of publication of the minutes, he felt that it would have been desirable if they could have been withheld. However, those for 1960 had already been made available to a degree, and other interested persons ought to have an equal opportunity to study the same minutes. This might assist in promoting objective discussion of monetary policy, although that, of course, was a matter that could not be answered at this time. He definitely would favor a time lag with respect to publication of any other minutes, and he would leave until a later time any decision as to what time lag might be applied in the future. Despite what he had just said, Mr. Shepardson expressed the hope that the Committee could handle the difficult problem of presenting the discussions of monetary policy through some means other than publication of the minutes.

Mr. King said that he believed a decision to publish the minutes at this stage would be jumping the gun. He would wait to see what kind of a report might be issued by the Congressional committee that had available the minutes for 1960 before deciding whether to publish or not. If forced to a decision at this time, Mr. King would release the minutes for 1960, but his preference would be not to release even those minutes at present.

Mr. Mitchell said that the fundamental problem went back to the kind of record wanted for the Committee's deliberations, and the question whether publication of the minutes would result in a different record than had been had in the past or than the Committee desired. He felt that the discussions in the minutes of the Committee would not be as free as they are at present if it were known that the minutes would be published. The kind of record that would grow out of minutes where there was a knowledge that they would be made public after a lag might well look shallow at a later period. This certainly would be the case if publication was to be with a very short lag such as one year, and less so as the lag became longer. While he would prefer not to publish the minutes, he would be inclined to make available at the Reserve Banks and some place such as the Board's offices or elsewhere in Washington a file of the minutes that serious scholars could know were available for study and reference. His inclination was not to deny students access if they had an honest interest in the subject matter, but he did not think that this called for reproducing and distributing widely sets of the Committee's minutes.

Mr. Fulton expressed views favorable to periodic (quarterly) reports of Committee discussions. He did not believe that publication of the minutes would serve any useful purpose.

Mr. Bopp said that as far as inhibitions on future discussions were concerned the Committee should remember that it could not now make a final determination as to what would be published in the future. If it were decided not to publish at this time, the same question might still come up a year hence. Thus, one could reason that the Committee would be inhibited whether there was a decision today to publish or not to publish. He had a great personal sympathy with publication of the minutes back to the origin of the Committee. In general, he felt that a time lag of five year prior to publication would be desirable.

Mr. Bryan said that publication of the minutes should have a minimum time lag of five years and anything shorter would be dangerous as inhibiting discussions of the Committee. This would be particularly true in view of the foreign currency operations recently engaged in. It was out of the question to talk about having two sets of minutes, one that could be made public and the other that would not be available. He did not believe that the fact that the minutes for 1960 had been made available to the Congress called for publication by the Committee. If the Congress determined to make those minutes available, that was one thing, but this need not be determinative for the Committee's action. In the one case, the Congress would take the responsibility and in the other the Committee would take the responsibility. The fact that those minutes might be released by the Congress should not frighten the Committee into something that it might regret. To take that course would be abdicating responsibility. Mr. Bryan said that he would favor making the minutes available with a considerable lag of time, but not otherwise.

Mr. Francis stated that the views expressed by Mr. Ellis represented the position that he would take on this question.

Chairman Martin said that until there was a more unanimous point of view than had been indicated at this meeting it would be a mistake to press the question of publication of the minutes to a vote. Both sides of the question had been presented reasonably well today, and as he had indicated earlier the views expressed by Mr. Ellis were persuasive.

Chairman Martin went on to emphasize that from his standpoint there were important considerations involved in this question. Everything that Mr. Ellis had said was well taken but, having spent a good deal of time in various libraries recently, he was convinced that there was a great shortage of good material on the operations of the Federal Reserve System. Information on what the System had actually done was woefully lacking. Various individuals formerly connected with the System had written things from their particular points of view, but this did not meet the need for full information to enable students and others to know what the Federal Reserve was doing in order that they might write objective analyses.

Chairman Martin said that he, personally, would be opposed to a quarterly analysis of Committee decisions on monetary policy of the sort he understood several had suggested around the table. Such a review prepared within the System for publication shortly after decisions were reached and while they still were being put into effect could not avoid being an apology for the Committee's actions. One result would be to make the position of the Chairman much more difficult than it now was.

Any such analysis of monetary policy could hardly be expected to be objective or to reach the problem that the System had to deal with. He regretted that the institutional life of the System, which he believed to be in danger, could not be put in a light that the public would be able to visualize, so as to see that intelligent and conscientious persons were sitting around the table at frequent intervals analyzing the situation and expressing different points of view as to what would be the most suitable procedure to follow in carrying out the purposes of the Federal Reserve System. He believed that the minute record of these discussions, even with some defects, was impressive as indicating both an attitude and a procedure whereby the System was attempting to render the decisions for which it was responsible. He did not believe that the System could put out a quarterly report that would do what was needed. Also, he had come to the conclusion that quarterly publication of the record of policy actions would not meet the need, and he felt that he had convinced a former Chairman of the Senate Banking and Currency Committee that an earlier proposal that the Committee publish its record of policy actions at quarterly intervals would not be appropriate. This was not a one-man operation, nor a one-bank operation, but it was a group of individuals attempting to develop dispassionately a policy in the interest of the whole economy. It was this institutional problem that the System faced. Even in the Congress relatively few members had an understanding of the System or the way it worked.

After further comments, Chairman Martin suggested that the Committee continue to study the problem that had been discussed and that at a future time it explore further the means that might be taken for dealing with this problem. In his judgment it would be a mistake, even if it were possible to arrive at a favorable vote for publication, to take such action at this time. The points made against publication of the minutes seemed almost unanswerable, but there should be some way of presenting to the public the nature of the Federal Reserve System and the way this group operated, the way its meetings were conducted. This was a problem that all members of the Committee should continue to study.

Mr. Ellis commented that, in suggesting a quarterly article on monetary policy or quarterly publication of the policy record, he had in mind that this could be a vehicle for presenting to scholars and others a current statement of actions taken by the Committee and that this would be more useful to them than publication of the minutes.

Chairman Martin responded that the idea of a quarterly article on monetary policy or quarterly publication of the policy record did not now seem to him to be desirable. It would be possible to give out some kind of a statement every three months. However, he did not think that individual members of the Committee should be placed in the position of having their votes on policy positions currently or very recently under discussion made public. He was against trying to conduct policy in a way that would make spot news, and yet this was what would be sought with frequent publication of the policy record.

In concluding this portion of the meeting, Chairman Martin stated that in the absence of objection the question of publication of the minutes of the Federal Open Market Committee would be tabled. No objection to this procedure was indicated.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, May 8, 1962. Tentative dates for following meetings were set for May 29, June 19, and July 10, 1962.

Thereupon the meeting adjourned.

Assistant Secretary.