

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, August 20, 1963, at 9:30 a.m..

**PRESENT:** Mr. Martin, Chairman  
Mr. Balderston  
Mr. Bopp  
Mr. Clay  
Mr. Irons  
Mr. Mills  
Mr. Mitchell  
Mr. Robertson  
Mr. Scanlon  
Mr. Shepardson  
Mr. Treiber, Alternate to Mr. Hayes

Messrs. Hickman, Wayne, Shuford, and Swan,  
Alternate Members of the Federal Open  
Market Committee

Messrs. Bryan and Deming, Presidents of the  
Federal Reserve Banks of Atlanta and  
Minneapolis, respectively

Mr. Kenyon, Assistant Secretary  
Mr. Hackley, General Counsel  
Mr. Noyes, Economist  
Messrs. Baughman, Brill, Garvy, and Tow,  
Associate Economists  
Mr. Stone, Manager, System Open Market Account

Mr. McLony, Assistant to the Board of Governors  
Mr. Williams, Adviser, Division of Research and  
Statistics, Board of Governors  
Mr. Sammons, Adviser, Division of International  
Finance, Board of Governors  
Mr. Keir, Senior Economist, Division of Research  
and Statistics, Board of Governors  
Mr. Spencer, General Assistant, Office of the  
Secretary, Board of Governors

Messrs. Latham, Hilkert, and Coldwell, First  
Vice Presidents of the Federal Reserve  
Banks of Boston, Philadelphia, and Dallas,  
respectively

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Messrs. Sanford, Mann, Ratchford, Jones,  
Strothman, and Grove, Vice Presidents of  
the Federal Reserve Banks of New York,  
Cleveland, Richmond, St. Louis, Minneapolis,  
and San Francisco, respectively  
Mr. Brandt, Assistant Vice President, Federal  
Reserve Bank of Atlanta  
Mr. Anderson, Financial Economist, Federal  
Reserve Bank of Boston  
Mr. Meek, Manager, Securities Department,  
Federal Reserve Bank of New York

Before this meeting there had been distributed to the Committee a report from the Special Manager of the System Open Market Account on foreign exchange market conditions and on Open Market Account and Treasury operations in foreign currencies for the period July 30 through August 14, 1963, together with a supplementary report covering the period August 15 through 19, 1963. Copies of these reports have been placed in the files of the Committee.

In comments supplementing the written reports, Mr. Sanford noted that the foreign exchange markets had been subject, since the previous meeting of the Committee, to two principal influences: (a) the uncertainties arising from the proposed interest equalization tax which affected, in largest measure, the dollar/Swiss franc rate, and (b) the dullness which settles down in the foreign exchange markets in August when many Europeans take their vacations. The London gold market was also influenced by the uncertainties concerning the position of the dollar, and at times the turnover was quite heavy. The gold price was generally held between \$35.09 and \$35.10 or a bit more, but as demand

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exceeded the amount of newly produced gold entering the market, the central bank gold pool suffered a loss.. Meanwhile, the U. S. gold stock was reduced \$50 million in the week ended August 14, following three weeks in which no change occurred. The drop in the gold stock had fortified holdings of the Stabilization Fund to a point at which the expected usual French taking of \$34 million in August should not occasion any further drop in the gold stock..

The Swiss franc continued to be subject to considerable upward pressure, as a result of continued tight money conditions in Zurich and the demand for Swiss francs from abroad.. Some of the pressure was relieved by U. S. Treasury spot sales here of \$9.7 million equivalent and forward sales abroad of Swiss francs amounting to 33 million dollars equivalent in the closing days of July and opening days of August, and the System Account Management offered to reactivate swap drawings in order to forestall a possible conversion of dollars into gold by the Swiss authorities. The Swiss National Bank, however, suggested that it deal with the situation for the time being through two methods: (1) taking in surplus dollars in its own market and giving the New York Reserve Bank orders to sell Swiss francs in the New York market after the close of the Zurich market, and (2) engaging in a swap transaction for \$10 million with its own market by which it bought \$10 million from the Swiss banks on a spot basis, and simultaneously sold them forward to the same banks. The Swiss cooperation seemed to have been of advantage to the Federal Reserve, in that it stretched out the interval

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between the retirement of the previous use of the swap facility between the System and the National Bank and the next possible use; and over and above that the Swiss National Bank provided the Swiss francs with which the market could be kept orderly somewhat above, or at, the rate at which the central bank usually intervenes. On most days the New York Reserve Bank had 10 million francs with which to operate in the New York market, and on one occasion 20 million francs to use if the pressure reached such a level as to necessitate their use. In the period since July 18, the aggregate of Swiss franc sales in the New York market for the Swiss National Bank had been the equivalent of \$12.3 million; the Swiss National Bank itself had taken in \$14 million; and it had swapped \$10 million with its market. The aggregate of operations by the Swiss National Bank therefore had been \$36 million, which with the \$43.0 million of Treasury spot and forward operations gave a total of \$79 million of dollar-supporting operations in Swiss francs since July 18. Aside from one occasion when the dollar declined to 4 3150 Swiss francs to the dollar, the rate in general had been maintained around 4.3160; it was now at 4.3155-58. To the amount of assistance to the dollar extended in the case of the Swiss franc, there should be added a net amount of \$29 million acquired by the Bundesbank (for one brief period the Bundesbank had to sell dollars to support the DM rate; the Federal Reserve participated to the extent of \$7-1/2 million and was able to reduce its swap drawings by that amount), and the sale of \$12.5 million of French francs by the System

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with the francs provided by the drawing on the swap arrangement. The aggregate amount of assistance to the dollar since July 18 had been at least \$121 million plus the \$28 million absorbed by purchases of gold in the London market.

Reverting to the strong demand for Swiss francs in recent weeks, Mr. Sanford said that some of the demand had been identified with movement of dollar funds by Latin Americans unwilling to divulge the true ownership of securities to avoid the proposed interest equalization tax (and perhaps for reasons related to their own governments); some of the demand had been associated with trust companies in the U.S. shifting funds to Switzerland to obtain increased flexibility, in view of the proposed tax. Over and above these indications of actual flows of funds, there had been reports by recently returned bankers and brokers, who asserted that their commercial bank contacts on the Continent believed that European holders of American securities would tend to liquidate such securities because they viewed the proposed interest equalization tax as a first step in exchange controls on capital movements; such contacts believed that losses of funds for this reason might exceed amounts saved by the imposition of the tax.

Among developments in Europe affecting the status of the dollar, it was worthy of note, Mr. Sanford said, that the French authorities had tightened up materially their restrictions on borrowings abroad of French companies. This should have a salutary effect.

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Turning to Canada, Mr. Sanford noted that the Bank of Canada, after suffering further exchange losses, had increased its discount rate from 3-1/2 to 4 per cent., effective August 12, and the exchange rate showed a moderate but short-lived rise. The rate was now about 92.35, some 20 points above the low reached on July 19.

The sterling market had been remarkably quiet during the past month, and the rate had held at 2.80 or slightly better until yesterday, when it dipped below par. At that point the System Account purchased, at 2.7990, one million pounds of sterling which was being offered in the market, in order to nip in the bud any incipient speculative movement, and the Bank of England cleaned up its market at the same rate before closing for the day and leaving a trading order with the Federal Reserve that was not touched off. In addition, the Treasury offered to purchase sterling. The weakness in sterling was attributed to a considerable widening of the trade gap in July.

The covered interest arbitrage between U. S. Treasury bills and U. K. and Canadian bills had recently been at or close to parity, with no real advantage in moving funds in either direction. Concerning the flow of funds through other money market instruments, i.e., U. K. public authorities paper and Canadian commercial and financial paper, there had been a virtual balance of small outflows and reflows for the past four weeks, according to the fragmentary data collected at the Reserve Bank's Exchange Trading Desk. This compared with an outflow of about

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\$45 million in the previous four weeks. Naturally, the recent increase in the Canadian discount rate might change the picture again, as some of the Canadian market rates had been marked up.

In reply to a request for further comment with regard to recent developments in respect to sterling, Mr. Sanford noted that the market had reacted fairly quickly yesterday to the most recent British trade figures. While it could be said that the figures for any one month were not particularly significant, there was some feeling that a speculative movement might build up. Therefore, in order to stop any such movement in its tracks, measures were taken to guard against it promptly and adequately. So far as could be observed, the sterling pressure was not characterized by any unusual movement of funds, for example to Switzerland. It appeared, in part, to have something to do with the manner in which banks in this country and abroad manage their foreign exchange positions.

In reply to a question as to whether there had been any indication of an inflow of short-term funds following the Federal Reserve discount rate increase, Mr. Sanford said the only definite evidence was that which he had cited in his previous comments. Movements of short-term funds between this country and Canada and the United Kingdom, which are particularly susceptible to interest rate differentials, apparently were essentially in balance for the most recent four weeks whereas in the previous four weeks there was a loss of \$45 million. No data were yet available to

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indicate whether this situation had been altered by the increase in the Canadian discount rate.. Neither was there any indication as yet of a shift by U. S. corporations or others out of the Euro-dollar market. However, the narrowing of the differential between Euro-dollar rates and short-term rates in this country would seem to suggest that perhaps some tendency to shift out of the Euro-dollar market might develop.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the System Open Market Account transactions in foreign currencies during the period July 30 through August 19, 1963, were approved, ratified, and confirmed.

Mr. Sanford noted that the \$50 million standby swap arrangement between the System and the Netherlands Bank would mature September 13, 1963, and he recommended renewal of this arrangement for another three months.

The proposed renewal of the swap arrangement, as recommended by Mr. Sanford, was approved unanimously.

Mr. Sanford also noted that the Federal Reserve sterling/Swiss franc swap with the Bank for International Settlements would mature on September 10, 1963. This swap was entered into originally on June 10, 1963. In view of the tight situation in the Swiss franc market, he recommended renewal for another three months unless conditions had changed by early September.

The proposed renewal, as recommended by Mr. Sanford, was noted without objection.



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This concluded the discussion of System foreign currency operations and related matters.

Before this meeting there had been distributed to the members of the Committee a report covering open market operations in U. S. Government securities and bankers' acceptances for the period July 30 through August 14, 1963, and a supplementary report covering the period August 15 through 19, 1963. Copies of these reports have been placed in the files of the Committee.

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

Our principal concern during the past few weeks has been to achieve slightly firmer money market conditions in order to help bring about a level of short-term interest rates more in consonance with the discount rate increase adopted by the System last month. In terms of Treasury bill rates, progress toward this objective was disappointing in the first few days of the recent period. Shortly after the last meeting, we learned that the Treasury would not, after all, offer a strip of bills during the period, as both we and they had expected. Moreover, there developed a particularly active nonbank demand for bills--especially from various State and local authority funds--which absorbed dealers' limited supplies and pulled rates lower. Indeed, the demand was such that dealers' trading positions in bills fell from about \$680 million on Monday, July 29, to about \$450 million on Friday, August 2--despite dealer awards of \$640 million in the July 29 auction. By August 2, the three-month bill rate briefly touched a low point of 3.20 per cent bid. If not for the market's belief that additional Treasury cash financing in the bill area was a likely possibility, rates might well have pulled even lower.

The subsequent turn-around, which carried the three-month rate up to about 3.36 per cent in yesterday's auction, had several causes. Mainly, it was a product of the modest firming of bank reserve positions which developed after the last meeting of the Committee. Given this moderate edge of firmness, commercial banks were induced to make sizable net sales of bills.

Moreover, in the course of achieving a firmer condition in the money market, the System sold about \$500 million of Treasury bills in three go-arounds of the market--on August 7, 13, and 15--which not only absorbed reserves but also helped directly to enlarge market supplies of bills. The ability of the System Account to make this volume of bill sales in the market, and to satisfy part of the foreign account demand for bills, without depressing reserve levels too sharply, was partly a reflection of the Account's purchases of roughly \$280 million of coupon-bearing securities in the market.

At the same time that System and commercial bank selling was adding to supplies, nonbank demand was tending to lessen somewhat, and by Friday, August 16, the dealers' trading position in bills had risen to about \$1.2 billion--which, however, was still a relatively low level by ordinary standards. In addition, market expectations of Treasury financing in the bill area were also a factor tending to produce cautious attitudes and higher rates in the bill market--although it is questionable how long these expectations would remain a factor if the Treasury does not follow through with some offerings fairly soon. As I shall outline in a moment, the market may not have too long to wait before seeing these expectations fulfilled.

In comparison with bills, the market in Treasury notes and bonds was relatively dull during the recent period, with small net changes in price and quiet trading activity. Here too, expectations of Treasury financing overhung the market--in this case involving anticipations of a pre-refunding or advance refunding in which, as in other recent operations of this kind, attractive investment opportunities would open up in every major sector of the maturity scale.

There also was little change in prices of corporate and municipal securities. New issue reaching the market encountered fairly aggressive bidding by underwriters, but in most cases only lukewarm interest from investors. In the corporate area, where supplies have been light and are expected to remain light in the immediate future, the slow sales of recent issues have not been a problem, but in the tax-exempt area some signs of congestion have again begun to emerge.

The Treasury faces a busy financing schedule for the next several weeks. We expect that the first in a series of monthly offerings of one-year Treasury bills may be announced tomorrow for auction next Tuesday and payment on September 3. The amount would be \$1 billion. Then, probably on September 4, the Treasury

would announce an advance refunding operation for which subscription books would be open from September 9 through 13. Details of the refunding are not yet decided, but it may include a pre-refunding of May 1964 issues as well as an advance refunding of some 1966 and 1967 maturities. At the same time that it announces the advance refunding, the Treasury would announce a \$1 billion strip of Treasury bills to be auctioned about September 11 and paid for a week later. We understand that the cash borrowings through the one-year bills and the bill strip would relieve the Treasury of any need to borrow additional cash until early October.

As a matter of information for the Committee, I should like to turn for a moment or two to the question of the procedures for allocating the System Account. We noted, at the time the present procedures were adopted last March, that the useful life of these procedures would be limited and that we would continue in our efforts to devise a set of rules that would be adequate to circumstances in which reserve ratios push closer toward 25 per cent. The existing procedures have worked very satisfactorily. But the fall expansion of note and deposit liabilities will soon be getting under way, and our gold stock will very likely show further declines. Thus we may, sometime this fall, begin to experience difficulty with the procedures now in effect.

We have therefore developed, in a tentative way, a revised set of procedures which we hope to have in shape for the Committee's consideration in the near future.

In further comments, made in response to questions, Mr. Stone stated that recent dealer short positions in coupon issues reflected primarily a commitment on the part of certain dealers to deliver \$197 million of 4 per cent Treasury bonds of 1970 to Grant County, Washington, by the end of this year. This commitment was filed about the end of July, at which time dealer positions in 5 to 10-year bonds automatically moved from a long to a short position. Actually, there were modest long positions in the hands of some of the dealers.

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With regard to Open Market Account transactions in coupon issues since the previous Committee meeting, Mr. Stone said the securities purchased for the Account had been coming in part from the long positions of those dealers who had such securities and in part from investors who were selling bonds in the market for one reason or another. In every case the Account operations in coupon issues had been addressed to the problem of exerting some upward pressure on bill rates without any sharp or major decline in reserve availability. In order to achieve these objectives in a situation where the Treasury did not add to the supply of bills and nonbank demand for bills was vigorous, the Desk was forced to resort to the device of purchasing coupon issues. On August 1 and 2, when the first purchases were made, Treasury bill rates were declining--reaching 3.20 per cent on the latter day--and at the same time a position of net borrowed reserves was being faced. The Desk did not regard it as compatible with the Committee's instructions to supply reserves through the bill market under those circumstances. Bonds were available, however, and the Desk therefore bought bonds. Some bonds were also purchased on August 8 after bill rates had turned around and had reached the level that prevailed at the beginning of operations under the directive issued by the Committee at the July 30 meeting. On August 8, foreign account purchase orders for bills amounted to \$41 million. The Account Management felt that if those bills were acquired in the market, that might reverse some of the progress that had been made; therefore, bills were sold out of System Account. However, this again gave rise

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to a net borrowed reserve position, and the Desk bought bonds offered by dealers at their initiative. Other coupon issues were purchased last Thursday and Friday, the Desk having sold \$400 million of bills in the market on Tuesday and Thursday to exert upward pressure on the bill rate. That rate had moved up to the neighborhood of 3.30, and it seemed to the Account Management that circumstances pointed to this level as a plateau. It appeared that if some additional bills were made available to the market, the rate could be gotten up from the plateau to the 3-3/8 per cent level mentioned at the July 30 Committee meeting. The Desk was aware that it would be necessary to re-supply some reserves absorbed through the sale of bills, and bonds again were available in moderate amount. The bill rate in yesterday's auction was 3.36. However, net borrowed reserves again came into the picture to a slight degree, and the Desk again supplied reserves by acquiring bonds. In all instances, the operations were directed toward the effect on the short rate, not the long rate.

In reply to an inquiry concerning market reaction to these operations, Mr. Stone suggested that it was necessary to go back to the 1961 experience in discussing this point. The market had placed upon the 1961 experience the same interpretation as on the current operations. It had become clear to the market rather quickly that operations in long-term issues were addressed to the short-term rate, and that the operations were being conducted in such a way as to insure the System's

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remaining a marginal participant in whatever sector of the market it conducted operations. The article in the Federal Reserve Bulletin of April 1963 had made that clear in respect to operations during 1962. If on occasion bond prices declined and the System did not have a short-rate problem and was not in the market, he anticipated that there would soon be a clear market understanding that the current operations in coupon issues were of the same variety as the operations in 1961 and 1962.

Asked whether he felt that commercial banks might have been led to feel justified in extending their portfolio maturities in reliance on Federal Reserve operations, Mr. Stone said he thought not. On the contrary, he believed that the market retained a healthy skepticism about long-term rates. There seemed to be a general expectation that short rates had about reached a level where they might continue for some time, along with some expectation of increases in long-term rates.

In further discussion of this point, Mr. Hickman agreed that money market banks might be quite sophisticated about this matter and anticipate an ultimate adjustment in long-term rates. However, some country banks, at least in the Fourth District, were being lured into longer maturities by the plateau in long-term rates. Some of them had talked to him about this, and he had warned them against proceeding on such an assumption. Mr. Wayne referred to the case of a reserve city bank in the Fifth District that did not have any maturities under one year, perhaps none under two years, apparently relying heavily on expectations with regard to Federal Reserve operations.

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In response to an inquiry about the further availability of coupon issues to the Account, Mr. Stone said that more were available. The volume of offers each day ran from \$150 to \$300 million. The Desk tried consistently to remain a marginal participant in whatever part of the market it conducted operations.

Mr. Bopp noted that he had been a participant in the morning open market telephone conference call during the past period. To indicate the type of problems that had been faced, he observed that as of Friday the estimate was for net borrowed reserves of something like \$30 million, weekly average. Had this persisted and such a figure been published, various interpretations would have been placed upon it. However, a supplying of reserves through the bill market would have had some effect on the bill rate, which was no higher than desired. Therefore, the Desk went into coupon issues. It was a complicated thing that the Desk was trying to achieve, and he felt it had performed well under the circumstances.

Mr. Stone estimated that in the absence of the operations in coupon issues, reserves would have had to be about \$100 million lower on average to achieve the same results in terms of the bill rate.

Chairman Martin mentioned that some market participants with whom he had talked had at first been very skeptical about operations designed to bolster the short rate and keep the long rate from rising. Rather interestingly, however, they now appeared to have more respect

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for such operations than previously. The Chairman also observed that greater loan demand at banks could change the picture rather quickly. The expectations of bankers regarding loan demand were not yet being fulfilled. The demand might come quite suddenly, but it had not appeared thus far.

Asked whether it would be fair to say that the System purchases of coupon issues did not push up the price of coupon issues and that whatever impact the purchases had was to prevent a decline in such prices, Mr. Stone replied that he thought this was probably right. He doubted, however, that the declines would have been very great. The prices of issues from 1965 on out showed a gain of only one or two thirty-seconds, and other issues showed a decline of one or two thirty-seconds. In the absence of the System operations, he guessed there might have been a decline of eight or ten thirty-seconds.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions in Government securities and bankers' acceptances during the period July 30 through August 19, 1963, were approved, ratified, and confirmed.

The Chairman then called for the usual staff economic and financial reports beginning with Mr. Noyes, who presented the following statement on economic developments:

You may recall that I reported at the last meeting that the economy seemed to be moving along as well as, or perhaps a little better than, one might reasonably have expected, but that this relatively good performance had not yet been fully



reflected in businessmen's attitudes toward the period ahead. Since then, it appears that economic activity has generally continued to improve and that the lag in confidence and expectations as to the future is rapidly being eliminated.

In terms of the indicators of actual activity, we find pluses in both the current data and revisions of earlier months for retail trade and industrial production. Further evidence of better than expected performance is found in the upward revision of the new orders figures for June, the continuation of the record \$64 billion rate of construction activity in July, some further pickup in employment, and continuing good reports on second quarter profits.

Evidence of the improved psychological climate can be found in the renewed bull movement in stocks and the strong buying intentions expressed by consumers in recent surveys. Adding further to confidence has been the strong behavior of the so-called leading indicators, which were "officially" interpreted at the Treasury consultants' meeting last week as signaling an upward movement in general activity for at least six to nine months to come. It may be worth noting, despite the fact that their record as forecasters is not very impressive, that the academic economists at that Treasury meeting all seemed quite confident that business would continue to improve through the remainder of the current year, and they addressed such critical comments as they had on current policy to its failure to close the gap between actual and potential output, rather than to the danger of an imminent downturn.

All this is not to say that the third quarter, as a whole, is not still likely to show less expansion than its predecessor--but only that most expectations had been geared to more flattening out than has developed thus far. If markets carry their optimism too far, they are likely to be disappointed by the August performance. Taking the production index as an example, present steel and auto production schedules, combined with as much expansion in other areas as we had in July, would only hold the index at its present level--not carry it up still another point.

Thus we find ourselves in a situation very similar to those which have occurred previously in this period of expansion and recovery. Economic activity is expanding, moderately on the whole, as one sector after another seems to spurt forward and then pause. There is no clear reason to suppose that it will depart from this pattern in the period ahead. Business sentiment, or confidence, has been fluctuating more widely around this already undulating uptrend, and at the moment it seems to be improving rather rapidly.

It is really impossible to relate these changes in general economic conditions and sentiment to the recent moderate shifts in Federal Reserve policy. As best we can measure it, there has been little or no significant change in the seasonally adjusted rate of monetary expansion. Thus, at least by this test, whatever the Committee's intentions may have been, there has been little or no shift in policy of which to measure the impact. Much the same might be said of long-term rates and credit availability in long-term capital markets. Whether by chance or by design, recent changes in credit cost and availability seem to have been limited to the short money market--where one would not expect to find much impact on business activity.

On the other hand, it is hard to relate the improved domestic sentiment to any increase in confidence in the dollar. If anything, skepticism as to the adequacy of measures to protect the dollar seems to have increased, both at home and abroad.

I might add in passing that similar observations might be made regarding fiscal policy. Measured by the current deficit, the Federal Government has been providing less stimulus to the economy than was expected--but it is hard to relate any of the shifts in output or sentiment to this phenomenon. It is even hard to see any connection between the recent improvement and the fact that the tax bill has finally made some tortuous progress.

Taken altogether, the evidence seems to suggest that the private sector of the economy is plodding ahead, not expecting or getting much help or hindrance from monetary, fiscal, or debt management policies. I would say that this performance tends to confirm the opinion--which I think everyone around this table has expressed at one time or another--that, for better or worse, the economy has a considerable capacity to adapt to small changes in policy and take them in its stride. It would be a great mistake to leap from this observation to the conclusion that the rate of activity is completely insensitive to changes in the monetary climate. As suggested earlier, the general presumption has been that a firming of rates and tone successfully quarantined in the short money market sector should not have much effect on domestic investment. That this judgment appears to be vindicated by recent developments does not mean that a more generalized increase in rates and lessening of credit availability would not exert a considerable restraining influence on investment decisions.

Mr. Brill presented the following statement on financial developments:

The past three weeks have provided a sharp test of money market management in achieving multiple objectives, with what appears to have been a substantial degree of success. Despite erratic but on the whole rather moderate reserve needs, despite low dealer inventories early in the period, despite substantial nonbank demands for bills, and despite the absence of any thrust to an expectant market from debt management, bill rates have been moved up closer to the 3-3/8 per cent level and, with just a few days' exception, the Federal funds rate has been kept snug against the discount rate. Long-term rates, on the other hand, have been stable.

These rate developments were accompanied by a shade more pressure on bank reserves. Required reserves supporting private deposits have stayed above the 3 per cent guideline, but by a somewhat narrower margin than in July. Excess reserves have been somewhat smaller than the average in July and member bank borrowings somewhat higher, yielding a free reserve average over the first two weeks of this month below \$100 million, compared with almost \$160 million in July.

Now we are entering a period in which a number of seasonal factors are expected to be operating in the direction of easing the task of maintaining the higher level reached by short-term rates. Nonbank demand for bills should be tapering off and then turning to substantial supply, as dividend and tax payment dates approach, and the impact on markets should be accentuated by the fact that dealer inventories have been restored to more usual levels from the very low point reached earlier this month. The Treasury is expected to be adding to the supply of short-term instruments, on net, through the new monthly cycle of one-year bills and through a strip issue to sop up any demands for bills which might arise from swapping operations in the yet-to-be-announced pre- and advance refundings.

Reserve needs over the next three weeks will be substantial, first from month-end reduction in float and then from the currency outflow over the Labor Day week end, and all through this period from the usual fall step-up in business loan demands. The question at the moment is whether these reserve needs can be met in full while maintaining upward pressure on bill rates. The answer is probably "yes," by artful meeting of reserve needs on a somewhat reluctant basis and, as far as possible, through purchases outside the short-term area. But the probability of

success is heavily weighted by the expectation of full strength in the seasonal forces operating to increase the market supply of bills and by the expectation of no adverse market developments arising from the Treasury's debt restructuring operations.

It would be wise, however, to exercise some caution in assessing the strength of seasonal influences on which we may count at this stage of the economic cycle. This is not to suggest that I detect any note of weakness in the fundamentals of the economy. As Mr. Noyes has pointed out, expansionary forces continue far stronger than many had anticipated this far along in an upswing. Total output is running close to the rate the Council of Economic Advisers had projected earlier this year as the upper limit of expectations after a midyear tax cut. While there is no clear evidence pointing to a sharp acceleration in activity, neither is there any to suggest any marked slowing from the 5 per cent annual rate at which dollar GNP appears to have increased so far this year.

But even with continued expansion in economic activity, it is possible to get less than full seasonal pressures in financial markets. As a result of high levels of activity and last year's revision in business taxes, the internally generated flow of corporate funds was in record volume in the first half of the year while investment spending remained at or below 1962 levels. Corporations apparently did not use their surpluses to add to liquid asset holdings--in fact, it is estimated that they made more than seasonal reductions in these assets--but they did reduce sharply their dependence on external financing both from banks and from the capital markets.

One can only speculate about more recent developments in the corporate financial picture, but there is nothing in the data on sales and costs to suggest any reduction in profits in this third quarter. Even if spending for inventories and plant and equipment should rise to the levels projected earlier by businesses, dependence on external financing and pressure to liquidate financial asset holdings are likely to be small this autumn compared to the strong demands for credit that developed in the late summer and fall of last year. It would take substantially more of a rise in spending than is currently projected to put much of a pinch on the funds of the business sector, and the sluggish business loan demands of recent weeks and the dearth of new corporate security issues on the calendar suggest that such a pinch has not yet occurred. Federal financing needs are also running less than was projected earlier, and the high level of the Treasury balance at a time when the Treasury is seeking a further extension of the debt ceiling is limiting debt management's use in support of short-term rates.

The flow of consumer savings to financial institutions seems to be slackening somewhat from the peaks of late 1962 and early 1963, but it is still at historically high levels. The consumer sector as a whole has absorbed much of its own saving through the rising incurrence of mortgage debt, and there are no signs of any diminution in this loan demand. One can wonder, however, whether the rise in consumer credit, which also has absorbed more savings this year than last, will be sustained short of some--as yet unobserved--substantial easing in terms.

To summarize and perhaps oversimplify, at current levels of interest rates, at current propensities to spend and invest, and with the current total and composition of tax burden, the economy is still tending to generate demands for financial assets faster than demands for borrowed funds. The reluctant downward pressure on interest rates cannot be alleviated by the classic 19th century device of permitting funds to flow abroad at a faster rate. One alternative, increasing domestic credit demands at prevailing interest rates, apparently has to continue to wait on some stimulus from fiscal policy. The other alternative is to reduce the supply of funds flowing into domestic credit markets, at least that supplement to saving flows supplied by the central bank. So far, our policies haven't reduced this supplement, but rather have made it more expensive to obtain and more temporary in nature, by forcing the growth in bank reserves to come largely from the discount window rather than the trading desk. Whether this will be adequate to sustain the present rate structure in the context of continued moderate credit demands seems doubtful. Perhaps not in the three-week period immediately ahead, when so many factors will be operating to sustain rates, but later in the month when some of the seasonal factors start running against us, it is possible that the twin targets of continued credit availability and high short-term rates will prove more difficult to reconcile.

Mr. Sammons presented the following statement with respect to the

U. S. balance of payments:

According to preliminary monthly data, the balance of payments deficit in July was considerably reduced from the high second quarter rate. With the French and Dutch advance repayments, and some benefit from the reversal of end-of-June window dressing, there was actually a small surplus. Without these special influences, and making some allowance for seasonal factors, the "gross" deficit was probably under \$200 million--still

uncomfortably high, but much reduced from the \$400 million-per month second quarter rate.

However, the partial weekly data--which are frequently quite misleading--show a \$190 million deficit again for the first two weeks in August, still slightly better than the second quarter rate, after rough allowance for seasonal factors. However, it seems clear that, at best, we are still operating in the \$3-4 billion a year deficit range.

We do not yet have any direct data on the factors--trade or capital movements--accounting for the somewhat improved July position. It is, therefore, still too early to say with any confidence what effect the discount rate rise and the President's balance of payments message have had on our balance of payments. Perhaps all that can yet be said was said here by Mr. Hershey three weeks ago: "the initial effects have not been clearly favorable for the U. S. balance of payments outlook."

Activity in the market for new foreign issues has been relatively limited in the last month. It is not clear to what extent this situation represents the normal seasonal lull and to what extent it represents a reaction to the interest equalization tax proposal. But the latter has certainly produced a widespread feeling of uncertainty in the market.

It must be remembered that long-term interest rates in many foreign countries whose securities are not exempt from the proposed tax exceed rates in the United States by about 1 per cent per annum or more. Thus, unless alternative sources of funds are forthcoming, some borrowers may still come into the U. S. market even if their issues are subject to the tax.

Data on short-term capital movements in July are not yet available, but the recent rise in short-term interest rates in the United States has not yet resulted in narrowing interest rate differentials to an extent that might be expected to have a major effect on capital movements. The uncovered difference between the U. K. and U. S. Treasury bills dropped about 35 basis points from late June to the present; but on a covered basis there was little change as the discount on forward sterling narrowed. The covered advantage on Canadian Treasury bills has dropped from about 30 basis points to zero due entirely to a wider discount on the forward Canadian dollar. The interest rate on 90-day Euro-dollar deposits continues to exceed the U. S. bill rate by about 70-90 basis points, and is presently about 60 basis points above the rate offered by U. S. banks on marketable certificates of deposit.

Nor do we find any great encouragement in the movement of exchange rates. The U. S. dollar has strengthened against the

Canadian dollar and, to a much lesser degree, against sterling. On the other hand, the dollar has required significant support against the Swiss franc, and other Continental currencies have remained firm. Reserve gains in July were again large for Germany (\$70 million) and for France (over \$200 million before the debt repayment).

The Bank of Canada's action to raise its discount rate to 4 per cent effective August 12 had only a very temporary strengthening effect on the Canadian collar. Canadian short-term rates have moved up about the same as U. S. rates; Canadian long-term rates have also risen somewhat, thus slightly widening the difference between U. S. and Canadian yields at that end of the market.

Whatever may be the effects of policy measures already taken--or of others that may be taken--on capital movements and government aid, from all points of view the most satisfactory solution to our balance of payments problem would involve an increase in our export surplus. Since there is no reason to expect imports to decline--on the contrary, they will continue to rise as our output increases--this means larger exports. The latest trade figures, while moderately encouraging, do not yet show any signs of a major breakthrough. As a matter of fact, June exports were down about 4-1/2 per cent from May, and, at an annual rate of \$21.8 billion, were about equal to the average for the entire first half of the year, and about 4-1/2 per cent above the 1962 average.

It may be that the relatively more rapid rise in wages and prices that has occurred in Europe in the last 2-3 years has not yet been reflected in export prices to the full extent that it will be--there are always some lags in these things. Nevertheless, it would be foolish to depend on additional help from this quarter. The need for continuously and forcefully strengthening the competitive position of U. S. goods in world markets, if we are to secure a liberal solution to our problem, becomes increasingly evident, in my judgment.

Chairman Martin called at this point for the usual go-around of comments and views on economic conditions and monetary policy beginning with Mr. Treiber, who presented the following statement:

Over-all economic activity continued to push upward in July. The further rise in industrial production, despite the downward influence of steel and auto output, the increase in

equipment production, the rise in outlays for commercial and industrial building, and the increase in retail sales strengthen the view, expressed by many at the last meeting of the Committee, that the domestic economy will advance further over the remainder of the year. There are still uncertainties with respect to the prospects for Federal income tax reduction this year, the ability of auto sales to sustain their recent high levels, and the ability of other industries to offset the dampening effect on production that is likely to be exerted by reductions in steel inventories.

Employment in July rose about 1/2 million to reach a new high. But the labor force rose by almost the same amount. Thus unemployment declined only slightly.

The United States balance of payments deficit for the second quarter of 1963 was extraordinarily bad, amounting to about a \$5 billion annual rate. The large increase in the deficit between the first and second quarters was caused to a considerable extent by expanded private capital outflows, a factor which can be most readily influenced by monetary policy. The surplus in July was greatly influenced by large debt prepayments by France and the Netherlands, by the liquidation of window-dressing operations undertaken by U. S. banks with foreign banks over the midyear statement date, and by the reaction in the Canadian exchange market to the interest equalization tax proposed by the President in mid-July. Without those favorable factors, the July deficit would have been much less than the second quarter deficit rate, but still above the first quarter deficit rate. Sizeable deficits have been reported for the first half of August.

The increase in the discount rate and the increase in the maximum permissible rates under Regulation Q have had a favorable effect on the dollar in the foreign exchange market. The situation has been complicated and confused, however, by the interest equalization tax proposal.

The increase in the Canadian discount rate last week and subsequent adjustments in Canadian money market rates have reduced, as regards Canada, the effect of our own rate increase. Euro-dollar rates have risen about 1/4 per cent since early July. Most European money markets have shown little change. Monetary conditions in Europe remain tight on the whole.

Seasonal adjustment problems make it difficult to appraise changes in total bank credit this summer. To date, however, the measures taken to strengthen our balance of payments appear to have had little impact on the availability of credit. While there has been some reduction in marginal reserve availability,



real estate and consumer loans have been rising, and the investment by banks in municipal securities continues to be substantial. The demand for business loans, however, remains slack, and there is some question as to whether consumer credit may be approaching a temporary peak or a plateau. Corporate liquidity continues to be ample. Bank liquidity showed little change in July.

Sensitive short-term interest rates have risen substantially. Since early June the average issuing rate on the competitive bidding for three-month Treasury bills has risen nearly  $3/8$  per cent. Secondary market rates for three-month certificates of deposit have risen by 40 to 50 basis points. Federal funds rates have been close to the new discount rate, and dealer loan rates have been substantially higher. On the other hand, long-term rates have shown virtually no change.

Money market developments since the last meeting of the Committee have contributed to the effectiveness of the increased discount rate. For balance of payments purposes, the System has taken the important steps of raising the discount rate and of using open market operations to put upward pressure on short-term interest rates. The results to date of these steps are encouraging. I believe that it is important that open market operations continue to be conducted so as to contribute most effectively to an improvement in the capital account of our balance of payments.

Some further modest increase in short-term rates would seem desirable. I would suggest a three-month Treasury bill rate at  $3-3/8$  per cent or higher, with Federal funds selling consistently at the discount rate. We should continue to buy intermediate- and long-term issues to supply reserves, where such purchases are feasible and the short-term rate situation makes it advisable.

The Treasury plans to announce a new issue of \$1 billion one-year bills tomorrow. I understand that it is prepared to announce an offering of a strip of about \$1 billion bills simultaneously with any announcement it may make of advance refunding in the period ahead. Such financing in the Treasury bill area should provide a welcome offset to the downward rate pressures that will be exerted by the System in meeting the heavy reserve needs ahead.

I think that the economic policy directive should be retained in its present form in order to assure continued progress toward a level of short-term market rates that is clearly consistent with the recent increase in the discount rate.

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Mr. Shuford said that since the last Committee meeting there had been no significant change in the trend of economic conditions in the Eighth District. The economic improvement, which had been under way since the first of the year, generally paralleled expansion on the national level. Employment in the District's major labor markets was up, and industrial use of electric power was continuing the upward movement that began early in the year. Bank deposits and business loans leveled off in July but had shown a substantial increase since the first of the year.

The recent advance in the national economy had been facilitated to some degree, in Mr. Shuford's judgment, by monetary expansion during the past year, and he believed that a continuing reasonable monetary expansion would be desirable as a further aid to economic progress. Steps to increase short-term rates in recent weeks appeared to have been successful, but it seemed to him it would not be desirable, through monetary policy, to attempt to push rates much higher than the recent levels. While he favored the recent increase in the discount rate, he thought monetary policy had made, for the time being, an appropriate contribution to the balance of payments problem. Any further increase in short-term rates might cause other central banks to raise their rates, thereby offsetting the action taken here. While the President's recent balance of payments message to Congress with respect to actions taken was encouraging, he continued to believe that more positive actions

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should be taken in areas other than monetary policy such as Government expenditures abroad. Primary reliance on monetary policy for an extended period could result in the postponement of fundamental corrections.

As to monetary policy for the immediate future, Mr. Shuford said he would not attempt to hold free reserves and member bank borrowings at any particular levels. If the bill rate remained at recent levels, and he believed it should--3-3/8 per cent would not be excessive--banks might undertake to reduce borrowings and sell bills. If, in order to keep banks in debt, the System should limit its purchases, bank reserves and the money supply presumably would decline. In his opinion, this sort of development should be avoided. As he saw it, the aim should be to maintain short-term interest rates at about recent levels and, to the extent possible, supply the banking system with reserves sufficient to allow the money supply to increase at about the rate of the past year--3-3/4 to 3-1/2 per cent. In the light of current business conditions, and with seasonal factors exerting an upward pressure on rates during most of the remainder of the year, such a policy of supplying reserves would not seem likely to result in a decline in short-term rates.

Mr. Shuford went on to say that he would not favor a change in the discount rate, and that he would not urge any drastic change in the policy directive. However, the word "increase" in the second line of the first paragraph might be dropped, and the second paragraph could be redrafted to call for open market operations to be conducted with a view

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to maintaining about the current degree of money market firmness, rather than a slightly greater degree of firmness.

Mr. Bryan reported that statistics for the Sixth District did not seem to differ significantly from the national statistics. Where they did differ, it was largely in the field of financial items. Changes in demand deposits, currency, and time deposits from a year ago had gone from a plus figure to a negative figure, contrary to the national trend. The same thing was true of the money supply, narrowly defined. There had been a decline in loans at member banks, and a decline in loans and investments. The unemployment situation was apparently better than in the nation as a whole.

Turning to policy considerations, Mr. Bryan noted that in the last half of July there had been a growth of 3.6 per cent from a year ago in the money supply, which was the greatest change from year-earlier figures since January 1962. There was an 8 per cent increase if time deposits were included. When it came to reserves, total reserves since last May showed a 6.7 per cent increase. Required reserves showed a 6.8 per cent increase; nonborrowed reserves a 4 per cent increase. He could not see that, in the longer run, the System could give effect to the shift in policy that was decided on in May, and was signalled more recently by the discount rate increase, without lowering substantially the growth and availability of reserves. In light of that belief, and in the absence of economic reasons for retreating from the present posture of policy, he felt that the System must begin lowering availability of

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reserves. He was not certain how to translate that suggestion in terms of total reserves or any other reserve figures. If put in terms of free reserves, however, he would advocate fluctuating around a central target of zero.

Mr. Bopp reported that the Third District's participation in national business improvement was spotty. While recent labor force developments had been mildly favorable, output and demand indicators were lagging badly. The northern and western portions of the District seemed to be bumping a descending ceiling of economic potential, and their performance was not helped by concentration in certain industries, notably the production of apparel.

Except for one week, the policy of less ease had reflected itself in a basic reserve deficit at Third District city banks. Borrowing from the Reserve Bank, however, had been light. Loan demand was still rather weak; for the year to date, loans of weekly reporting banks had risen by about a third less than in the same period last year.

So far the experiment that the Committee had launched seemed to be working, Mr. Bopp said. Given the decision to seek higher short-term rates, it was gratifying that longer term rates had not risen. And reserve availability, as measured by free reserves and total reserves, had been maintained. On the other hand, the volume of borrowing, which might be a better clue to credit tightening at this juncture, was rising.

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The increase in the Canadian bank rate was disturbing, Mr. Bopp added. Despite official assurances that this was purely a technical move, and granting that the Canadian situation was somewhat special, still it illustrated the kind of pressures that could nullify the balance of payments effects of higher rates here. If other countries in time followed suit and this country attempted to keep pace, the upward movement in rates not only could greatly aggravate the domestic economy but could lead to world-wide difficulties as well.

Mr. Bopp expressed the view that since short-term rates were about at the levels previously intended, the Desk should now concentrate on keeping the reserve supply as large as possible and borrowing as small as possible. If short-term rates tended to slip, he would prefer to meet the situation by purchases of coupon issues and sales of bills, and by Treasury action to increase the supply of short-term debt, rather than by reducing the availability of funds. He would not change the discount rate at this time. As to the current policy directive, he would urge that it be modified along the lines suggested by Mr. Shuford to avoid the cumulative effect of "a slightly greater degree of firmness."

Mr. Hickman commented that steel output had shown only minor changes in recent weeks, both in the nation and in the Fourth District. An estimate had been made that steel ingot output in August for the country as a whole would aggregate 95 million ingot tons, at a seasonally adjusted annual rate, which would represent the largest month-to-month decline this year. According to confidential reports received from

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several major steel producers, orders picked up more than seasonally in July, and only slightly less than seasonally during the first half of August. Reserve Bank analysts and others estimated that weekly ingot production would not show significant improvement until the third week in September. Earlier, a turn had been anticipated three weeks sooner.

Domestic new car sales declined during the first ten days of August, largely because of a maldistribution of dealer stocks and a shortage of popular lines. Basic demand for new cars apparently had continued strong, inasmuch as used car prices climbed in July, after seasonal adjustment. Based on preliminary estimates of domestic sales of 550,000 units in August, production of 160,000 units, and exports of 12,000 units, inventories by the end of the month would probably drop by 40 per cent, and would be below the levels of most recent good automobile years, including 1955.

Mr. Hickman went on to say that as Mr. Noyes had indicated, the combined weakness in autos, auto part, and iron and steel was equivalent to a drop of about one-half of a point in the Board's production index in July, but this was more than offset by advances in other components equivalent to 1.4 index points. In August, the Reserve Bank expected a decline in the same areas of weakness equivalent to 1 to 1-1/2 index points. Thus, all other forms of output would have to advance as much in August as in July for the total index to stand still. However, it

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was now becoming clear that, contrary to misgivings previously expressed in many circles, the production index in the third quarter would average at least as high as in the second quarter. In the fourth quarter, he would expect the index to rise because of basic strength in demand for autos and the related demand for steel.

Turning to the employment situation in the Fourth District, Mr. Hickman reported that the increase in the seasonally adjusted rate of insured unemployment, which was expected in the steel centers, finally became evident in early August in various areas, including Cleveland, Steubenville-Weirton, Lorain-Elyria, Canton, Youngstown-Warren, Pittsburgh, and Hamilton-Middletown; other centers showed continued improvement. The net effect of the cutback in steel in the District thus far had been slight, and the District's insured unemployment rate continued below that of the nation and substantially below a year ago. With the upgrading of the Canton labor market in July, only four of the fourteen labor market areas in the District remained in the "substantial labor surplus" category, a proportion roughly similar to that of the rest of the country.

So far as banking and monetary statistics were concerned, Mr. Hickman said it appeared to him that reserve availability remained excessive, despite a minor decline in net free reserves in recent weeks and a moderate rise in member bank borrowing. Both total reserves and reserves available to support private deposits increased considerably



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from June to July; and actual required reserves continued above the standard guideline. Both the money supply and time deposits increased smartly in July.

Mr. Hickman noted that banks had continued to acquire large amounts of municipal securities, real estate loans, and other longer-term, less-liquid, higher-yielding assets. The large amount of funds flowing into longer-term municipals in recent weeks could, in his opinion, be explained in part by expectations of a pegged structure of rates generated by recent System operations. Should these expectations prove unwarranted, some Fourth District banks might be in serious difficulty. Moreover, the System would find itself increasingly limited in the flexibility of its operations the longer present operations were continued.

Mr. Hickman added that he was referring specifically to operations of the Desk thus far in August. According to his records the System purchased intermediate and long-term Governments on August 1, 2, 5, 8, 15, and 16 and sold bills on August 7, 8, 9, 13, and 15. The net effect was to twist the yield curve up on the short end and down on the long end. The Committee's policy directive provided for a slightly greater degree of firmness in the money market but said nothing about an easier tone in the long-term market.

Mr. Hickman expressed the view that the Committee should continue to press for reduced reserve availability, should instruct the staff to

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lower its guidelines, and should abandon the twist operation. If, as he hoped, the Desk was instructed to shift from a pegged to a free structure of interest rates, this should either be announced publicly or should be made clear to the market through a demonstration of the readiness of the System to sell as well as buy long Governments in the market. He saw no reason to change the directive as currently worded, provided it was adhered to. Otherwise, he felt that the directive should be revised to indicate that the System was engaging in a twist operation.

Mr. Hickman also brought out that beginning in late August it would be necessary for the System to inject large amounts of reserves to take care of seasonal needs. If conducted through the open market, this would put downward pressure on money rates, which could have an adverse effect on the balance of payments position. The Board of Governors might wish to consider the alternative of a slight reduction in reserve requirements. Any offsetting adjustments, if needed, could be effected through sales of intermediate and long Governments, as well as Treasury bills; this would reduce the pressure on gold reserves.

Mr. Mitchell commented that the business situation seemed to have developed better this summer than he had expected. The economy apparently had absorbed the contractive effect of the steel inventory adjustment. About the same levels of output and activity as in the first part of the year appeared likely to continue for the balance of

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the year. This meant, of course, that little or no contribution was being made, at this level of activity, toward cutting down the gap between capacity and performance. Many people, he observed, believed that the only way the gap could be narrowed was through changes in the tax structure.

The present posture of the System was not entirely to his liking, Mr. Mitchell said, but it was up to the System to find out how effective this posture was going to be. Thus far there was no evidence that it was damaging the domestic economy, and no evidence that it had improved the balance of payments situation. The only clear evidence was that the Government, and perhaps some short-term borrowers, were sustaining higher interest costs than before. More evidence was needed before coming to any firm conclusions. It would be unfortunate, he added, if there were further upward movements in foreign bank and money rates.

As to the directive, Mr. Mitchell felt that Mr. Shuford had made a sensible suggestion. Also, he agreed with Mr. Hickman that the directive should contain some reference to System operations in long-term securities, if such operations were to be continued. The Manager should not be placed in a position where he seemed to be operating without specific instructions from the Committee.

Mr. Shepardson commented that the outlook was encouraging to him so far as domestic economic activity was concerned. In his opinion, the recent change in monetary policy was in the right direction and

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should be continued; monetary expansion still appeared greater than justified.

Mr. Shepardson did not think the solution to closing the gap between performance and potential capacity was to be found in increasing the money supply. That was not to say that it should be curtailed or cut back, but he questioned the rate of expansion, feeling that the tendency had been to press more on the money supply than on other factors. He had been concerned for a considerable time about the lip service given to the continuing underutilization of resources. In the first place, he was not sure how usable the unutilized capacity was, either in terms of plant and equipment or labor. There were not going to be more jobs for unskilled labor if the main interest was in economic progress and growth. Efforts should be made to stimulate investment in new development rather than thinking about going back to a fuller utilization of obsolete equipment and unskilled labor. To obtain this, there must be adequate profit incentives, which meant containment of cost increases. Fundamentally, an increase in employment was not going to be obtained by increasing wage rates. What was needed was a standstill in wage rates to allow American businesses to become more competitive, thus increasing activity at home and improving the balance of payments situation. A way must be found of containing wage crawls until a higher level of employment was attained. More attention also should be given to minimizing some of the disincentives to employment--

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making it too easy for folks to hunt for jobs where they knew they would not find them. A lot of people will resist making efforts to find employment as long as they can get by without too much discomfort. Many of the existing programs tended to make it possible for people to avoid the burden of qualifying themselves for available jobs, thus perpetuating unemployment.

Mr. Shepardson said he realized this was outside the sphere of monetary policy. The changes had to come elsewhere. However, he did not think the situation was helped by attempting to provide a cure through monetary policy. Monetary policy had been more than easy, and the rate of monetary expansion should be slowed down. On that basis, he would favor retaining the existing directive, thus continuing to exert some additional pressure. It also seemed to him that whatever may have been accomplished by the twist operation, there was a limit at some point. He was not at all sure but that this point had been reached. Perhaps the Committee should now allow the whole range of interest rates to find normal levels and relationships.

Mr. Robertson said that, as everyone knew, he had had grave doubts about the bill-rate policy that the Committee had been following. He doubted that it would have any important bearing from the standpoint of the balance of payments problem, and he thought it could have an adverse effect on the domestic economy by hampering expansion. He thought, also, that it would sooner or later result in an increase in

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long-term rates. Likewise, he felt that the tinkering operations in which the Committee was engaging would create long-run problems. The quicker they were terminated the better. At the same time, it would be unwise for the Committee to flop back and forth from one position to another. Having arrived at the position of the moment, he would suggest staying put and maintaining an even keel. He would not agree to retention of the present directive, which provided for continuing to move into a tighter position. He would, however, accept the directive with Mr. Shuford's change, which looked toward maintaining an even-keel position pending a re-evaluation of the effects of present policy at the next Committee meeting or thereafter.

Mr. Mills said he continued to hold the views he had expressed at recent Committee meetings. There were circumstances prevailing, he noted, that were beyond the control of the Federal Reserve System; actions, or lack of appropriate actions, in the fiscal area of the Government's responsibilities had shifted the burden of combatting the balance of payments problem onto the Federal Reserve. That being the case, he believed the System was committed to carrying on the policy now in effect, with the full knowledge that it was replete with risks and economically undesirable. As to the technical side of operations, he believed the Committee's only choice was to make effective the policy that had been chosen by the Committee. But if that was the course decided upon, it was probable that the supply of reserves would

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be contracted. Along with the contraction, it was reasonable to anticipate that the level of required reserves would shrink, and at the same time that excess reserves and free reserves would rise. If free reserves did rise, that would, of course, place a softening effect on bill rates; this was a development that would have to be accepted. If an increase of free reserves due to a reduction of required reserves was taken as a signal to absorb reserves, that would compound the pressure on the supply of reserves and the availability of credit severely and unnecessarily. He had complete sympathy with Mr. Hickman's desire to break loose from the pegging operation being followed in the conduct of the System Open Market Account. In bygone days, Senator John Sherman of Ohio, when it came time to consider the resumption of specie payment and there was great concern that the resumption would be disruptive to the economy, said "the time to resume is to resume." At a more appropriate time that might be an example to follow with respect to discontinuing the pegging operation.

Mr. Wayne reported that business activity in the Fifth District remained generally at a high level and had changed very little in the past three weeks. Current strength was particularly apparent in bituminous coal, where production and shipments in recent months had been the largest since 1957 with the outlook favoring further gains, and in construction, where contract awards for the first half-year reached a new high in spite of a sharp decline in June. No significant signs of weakening were

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currently visible in any of the principal manufacturing industries. Furniture makers had a year and a half of prosperity behind them and expected a better second half this year than last. Textilemen reported that order backlogs for large-volume gray goods were now in generally satisfactory condition for the rest of this year. Cigarette manufacturers continued to meet a gradually rising demand despite the growing volume of adverse publicity. Only the farmers were complaining, and with good cause. The extended drought had dried up pastures, forcing some to sell their herds, and the outlook had deteriorated for many crops.

According to the Reserve Bank's latest survey, business sentiment was more diverse now, and on balance a little less optimistic, despite indications of more confidence among the reporting bankers. Respondents in the manufacturing sector reported business about the same, but the flow of new orders had slowed a little. The survey also showed, with some support from other sources, that recent good levels of retail trade were being maintained or improved.

Turning to national business conditions, Mr. Wayne observed that business activity was apparently continuing to move ahead, but that indicators of future activity seemed to be mixed and indecisive. During the first half of this year the economy performed better than most authorities had predicted. The pattern of changes was much the same as prevailed in the first half of 1962, but the gains were smaller everywhere except in the industrial area, where they were distinctly



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larger. In recent weeks the economy had shown considerable strength in maintaining momentum despite the sharp cutback in steel, the tense international financial situation, domestic racial disturbances, and uncertainties about fiscal policy. Somewhat larger backlogs of manufacturers' unfilled orders and accumulated construction contracts had contributed extra strength this year. It might be that these and other elements inherent in the present situation would be sufficient to insure a second-half performance better than the unimpressive record of the last half of 1962, but it was too early to be sure. At the moment, Mr. Wayne saw no obvious reason to expect that there would be any significant change in the period immediately ahead.

In the policy area, Mr. Wayne commented that the money market had about completed its transition, and the structure of short-term rates was now approximately in line with the new discount rate. The bill rate had lagged somewhat in making the adjustment because of a strong demand for bills. Thus far the rate adjustments were about the only important domestic reactions to the change in the discount rate. Internationally, there were significant increases in the rates on the Euro-dollar and in short-term rates in Canada, but covered spreads had changed little.

Mr. Wayne went on to say that with the rate structure in adjustment at the new and higher level, the pertinent question was whether the structure should be raised or lowered. The domestic situation

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certainly did not suggest a need for further tightening. If the Committee was, in the words of its present directive, "to accommodate moderate growth in bank credit," as he thought it should, free reserves should not be allowed to drop any lower at present. In fact, in terms of reserves that could actually be mobilized, there probably had not been any real free reserves for the past month or more. On the international front, any further rise in rates here would probably stimulate increases in market rates abroad and might encourage or even force official action to raise rates. Mr. Wayne felt, also, that it was appropriate, if not essential, to watch developments on the interest equalization tax proposal and any results that might occur. Consequently, he favored a policy of maintaining about the present degree of firmness in the money market, which he interpreted to mean a structure of short-term rates approximately the same as had prevailed in the past few days, this to be accomplished, if possible, with a level of free reserves fluctuating in the area of \$100 million. An appropriate change in the second paragraph of the current directive would be needed to implement this policy, and he agreed with the change suggested by Mr. Shuford.

Mr. Clay commented that the Federal Reserve System had made its major monetary policy move five weeks ago when it increased the discount rate, and since that time the Committee had been engaged in operations to coordinate open market policy with the discount rate action. The job had been complicated by the twin goals of higher short-term rates and

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continued reserve availability. Any effort to move the short-term open market rates still higher presumably could be accomplished only by reducing reserve availability and bank credit expansion and probably putting upward pressure on longer term rates. It would appear well to avoid such action at this time, both in consideration of domestic economic needs and in order to provide time for money and credit markets to adjust to the policy moves already made.

Evidence concerning the performance of the domestic economy in the early part of the third quarter was rather encouraging, but the basic problems of the domestic economy continued essentially unchanged. Moreover, the task faced by public policy on that front also remained essentially unchanged as one of encouraging economic expansion. It would be well to keep in mind that what was a rather good performance of the domestic economy as to the degree of expansion during this business upswing, despite problems of underutilization of resources, occurred under a monetary policy that had been comparatively easy. The need for further economic expansion and the resource availability for accomplishing it constituted a serious argument against a reduction in the rate of credit growth.

Mr. Clay expressed the view that it also would be in order to allow more time for the money and capital markets to adjust to the recent monetary policy changes and to afford the System added opportunity to observe the subsequent developments in international financial indicators.

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There would appear to be merit in the idea of affording more time for international financial indicators, particularly relative interest rates to adjust to the policy changes already made, thus giving the System greater opportunity to observe the resulting developments.

So far as giving evidence of making the discount rate effective was concerned, Mr. Clay saw nothing incompatible between the half point increase in the discount rate and the accompanying increase that had taken place in short-term open-market rates, nor was there any inconsistency between a 3-1/2 per cent discount rate and the current level of short-term market rates. The increase in open market rates must be measured beginning with the anticipatory movement preceding the discount rate change and not with the date of the discount rate change itself.

Mr. Clay felt that for the time being monetary policy should continue its recent posture, with no change in the Committee's goals on short-term rates and reserve availability. The Account Manager should stand ready to purchase longer-maturity issues to facilitate the Committee's goals, as well as to undertake offsetting sales of Treasury bills and purchases of longer-maturity issues. The directive, he thought, could remain unchanged except for a modification in the second paragraph to avoid additional tightness in the money market. The wording suggested by Mr. Shuford would be agreeable to him.

Mr. Clay concluded his remarks by saying that the fundamental question before the Committee continued to be the same as it had been

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for a long while, namely, not only what could be accomplished for the international balance of payments problem through monetary policy but also whether any substantial impact could be had on the international flow of funds through monetary policy without moving domestic interest rates to levels that would involve serious monetary restraint on economic activity.

Mr. Scanlon reported that business prospects continued favorable in the Seventh District. The stronger trend evident in retail sales in June appeared to have been about maintained in July and early August. The most promising recent development, other than the apparent uptrend in retail trade, was the surprising strength of construction. Manufacturing continued to lead, but recent months had witnessed a marked improvement in housing starts in the District, especially in Milwaukee and Detroit.

The increase in bank credit for June and July as a whole at Seventh District banks was about the same as a year ago, and the net expansion over the past six months matched the national experience--roughly 3-1/2 per cent. Consumer loans appeared to have been quite strong recently, and District banks had also continued to increase real estate loans fairly rapidly. Business use of bank credit did not appear to be increasing, but the net decline in outstanding business loans over the past two months was about the same as for the past several years. The normal seasonal influences had been dominant, but with a sharper

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than usual increase in borrowing by commodity dealers and somewhat greater than normal declines in loans to manufacturing and retailing firms.

With the tighter credit conditions that had prevailed recently, the major Chicago banks had been borrowing more both in the Federal funds market and at the discount window. In addition, they had reduced their holdings of U. S. Government securities by about \$150 million since mid-July. Chicago banks did not appear to be bidding actively for corporate funds through issuing short-term certificates of deposits.

As to policy, Mr. Scanlon recalled that his preference at the last Committee meeting had been to wait for the dust to settle before making further moves, but this was merely a matter of timing. Since there was now a slightly greater degree of firmness in the money market, he would remain there. He believed there was room under an even-keel policy to attain the 3-3/8 per cent bill rate the majority favored at the last meeting. Therefore, he would change the directive to provide for operations to be conducted with a view to maintaining the same degree of firmness in the money market as at present. He would not change the discount rate.

Mr. Deming stated that in the first half of 1963 the Ninth District economic record compared quite favorably with that of the nation. Perhaps the best summary statistic to indicate this conclusion was personal income, which for the District in June was running 7 per cent

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ahead of a year earlier, as compared with a 5 per cent gain for the United States. Farm income had been quite favorable this year, and this fact accounted for most of the difference between District and nation, although manufacturing activity in the District also had run relatively better. Available data for July pointed both ways. Industrial power use was up sharply from June, according to preliminary figures, while employment failed to show as much gain as would be normal. The Employment Service people, incidentally, were not optimistic about the short-run employment outlook. Debits were up strongly in July. The farm outlook was quite good, with an excellent crop outturn now virtually assured. It would be a bit smaller than last year's record volume, but well above average.

After a strong first half, particularly at country banks, bank loan demand in July was about in keeping with normal seasonal behavior. Fragmentary data for city banks in August pointed to some recent weakening in loans. Investment behavior at District banks, like those in the nation, was influenced in June and July by the timing of Treasury financing. So far in August, growth in investments looked a little better than normal. Total deposits fell contraseasonally in July, but this reflected almost entirely a decline in Government deposits that took funds out of the District. City banks had registered some seasonal deposit gains in the past two weeks.

Both bank borrowing from the Reserve Bank and Federal funds

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purchases increased significantly in late July and early August, but had subsided in the past week or so. The effect of the Comptroller's new ruling on Federal funds transactions on Ninth District banks was not yet clear. It might lead to less frequent use of the discount window by the larger banks than would otherwise be the case under similar conditions of reserve availability.

The national economic situation, Mr. Deming noted, evidently was gaining unexpected strength, and business and consumer confidence seemed to be growing. The stock market apparently was mirroring this feeling. Whatever the effect on the payments balance of the somewhat snugger money market conditions, they did not seem to have had any adverse effect on the domestic economy so far. Should the present economic trend continue and be augmented by seasonal factors, it would make the task of credit policy implementation somewhat easier--assuming that the Committee would want to continue its emphasis on competitive short-term interest rates. At the same time, he thought the Committee was going to have to put more emphasis on reserve availability in order to have more impact on capital flows abroad, particularly those from banks. This, of course, also could come more from market forces than from overt credit policy action. For the moment, however, he would be content to stay "about where we are" in terms of money market conditions, free reserves, and short-term rates, although he would not resist a further modest upward movement in such rates should the market itself



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supply the force to achieve the higher rates. As to the policy directive, the only change that seemed necessary would be to amend the second paragraph to call for operations with a view to maintaining the present degree of money market firmness.

Mr. Swan said the available data for July, and more complete data for June, revealed the lack of vigor characteristic of important sectors of the Twelfth District economy in recent months. Unemployment rates rose rather substantially in July in California and Washington. In California this was primarily the result of an increase in the labor force. In Washington this was a contributing factor, but there was also a less than seasonal gain in employment in agriculture, along with declines in Government and aircraft employment. In June, Arizona was the only District State to report a lower rate of unemployment than in March. Also, District department store sales probably registered a decline for the second month in a row in July; however, sales remained slightly above a year ago. New car registrations in California, where sales had been strong in the first half of the year, were down about 9 per cent for the first 18 days of July from a year earlier, compared with the year period gain in sales in July for the country as a whole. Construction awards in the District varied widely from month to month but showed a sharp net increase in the District for the first half of the year. Rental vacancies, however, rose sharply in the second quarter. With some resumption of lumber production already under way, and the

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end of the strike expected by mid-August, lumber prices were expected to soften considerably. Canadian lumber production had increased to take advantage of the strike, and additional supplies from that source were still coming into U. S. markets.

For the three weeks ended August 7, Twelfth District weekly reporting banks reduced their investments considerably more than they expanded their loans. Thus, reserve positions were easier than in the preceding three weeks, and net sales of Federal funds were at high levels. For the week ended August 14, borrowings from the Reserve Bank were quite low.

Despite continuing improvement in the business picture nationally, Mr. Swan was not convinced that the domestic situation, taken by itself, warranted the present degree of lesser ease. The action had been taken, however, and this was not a time to retreat from the current position. But with the bill rate currently close to 3-3/8 per cent, the present degree of firmness should not be increased. The Committee also should await the market and public reaction to the Treasury financing plans shortly to be announced, as well as some clearer indication of the fate of the tax reduction legislation.

Mr. Swan said his suggestion for changes in the directive corresponded with those mentioned by Mr. Shuford. He added that the System soon would be faced with the problem of supplying additional reserves for seasonal expansion. He was quite interested in the comments

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of Mr. Brill and Mr. Hickman in this regard. The problem of the magnitude of these reserves, the extent to which the System would be reluctant to supply them, the form the supplying of reserves would take as between security purchases and a reduction in reserve requirements-- all these things presumably would have a considerable effect on the range of action likely to be open to the Committee in terms of general open market policy. At the moment, he would agree with Mr. Hickman that there would seem to be a case for a slight reduction in reserve requirements.

Mr. Irons said that Eleventh District business conditions were generally at a high level. Most of the changes taking place were about in line with what might be expected on a seasonal basis. There were uncertainties in some areas, such as agriculture and probably retail trade, although the latter had improved recently. On the banking side, there was no evidence of strain or excesses one way or the other. Loans were up moderately; time and savings deposits continued strong; investments were down as the banks disposed of bills and certificates. Some impact of the Comptroller's new ruling on Federal funds might be appearing; the few District banks that were active buyers of Federal funds had been stepping up their purchases. There had been no appreciable use of the discount window; borrowings were running about \$9 million on a weekly average.

On the matter of the directive and policy for the next three

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weeks, Mr. Irons indicated he would lean toward maintaining the present directive, which would permit attaining a slightly greater degree of firmness in the money market. During the past three weeks the Desk had performed well and had moved in the direction of achieving the objectives indicated by the Committee. Whether by Desk or market action, the short-term rate had moved up some 10 basis points or more, while long-term rates were quite stable. Unquestionably the market had been firmer, but he was not aware of any evidence of undue tightness. Therefore, he would continue to seek a slightly greater degree of market firmness, although not aggressively. In other words, if market factors and developments were such as to make for a slightly firmer market, he would not object. If the bill rate went to 3-3/8 per cent, other short-term rates went up a bit, and Federal funds traded consistently at 3-1/2 per cent, he would consider that a move in the right direction. He would be inclined to continue operations in the intermediate and longer term areas whenever such operations were appropriate for System purposes. He did not know whether the assignment the System seemed to have inherited could be accomplished, but he would not be prepared to say--at least for the time being--that it could not be done; he would like to see a little further experimentation. To put it another way, he would not favor abandoning the twist operation if it seemed feasible to continue for a while. Sooner or later, a point might be reached where free reserves would have to be pushed lower, perhaps into negative free reserves.

However, he did not believe that that point had yet been reached, and for the next three weeks he would think in terms of free reserves somewhere around \$100 million or a little lower.

Mr. Irons reiterated that he would accept the existing policy directive for the next three weeks. If the directive were changed to call for maintaining the present degree of firmness, that would seem to impose on the Desk a responsibility to maintain only the present degree of firmness even though the short-term rate might tend upward because of Treasury operations or for other reasons.

Mr. Latham said that with the exception of employment, the New England economy appeared to be holding up well. Employment trends continued to show up less favorably than those for the country as a whole. Nonagricultural employment, seasonally adjusted, declined in June for the fifth consecutive month. The 12-month net change, as of June, was an increase of only 1/10 of 1 per cent. Manufacturing employment declined further in June, with a 12-month net decrease of 1.5 per cent. The estimated unemployment rate, seasonally adjusted, rose from 5.2 per cent in May to 5.7 per cent in June.

An important factor in the lack of vigor in New England employment trends had been the relative weakness of the electrical machinery industry, and more particularly the important electronics component. A 7,200 drop in employment in the electrical machinery industry for the 12 months ended June 30 compared with a decrease of 9,000 jobs for all

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durable goods manufacturing industries and constituted about one-third of the 21,000 loss in jobs for all manufacturing. The electronics industry in New England, after experiencing a period of rapid growth, had apparently been going through a shakedown period, although most of the job loss appeared to be in the larger companies.

Consumer spending continued at a good pace, as reflected by department store sales, registrations of new automobiles, and resort area business occasioned by excellent vacation weather.

Construction was a strong factor in the New England economy. In June, nonresidential building contracts were up 69 per cent from a year earlier; residential building contracts were up 24 per cent.

Deposits in mutual savings banks and share accounts in insured savings and loan associations continued to grow at a good pace, although the savings deposit increase at commercial banks slowed during the month of July.

Business loans at commercial banks had continued stronger than seasonal since June. Through August 14, First District banks completed their fifth consecutive week as net purchasers of Federal funds. It was interesting to note that with the relative tightness that occurred on August 7, because of the temporary maldistribution of reserves, borrowing at the discount window was the heaviest for a single day since 1921.

In conclusion, Mr. Latham noted that District bankers generally voiced accord with System monetary policy.

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Mr. Balderston expressed agreement with the view of Mr. Sheppardson that it was a delusion to talk about the utilization of capacity, human and otherwise, that was not competitive in present markets. He went on to say that his reaction to the small impact observable thus far from the System's discount rate action was satisfactory. The covered rate differential between the United States and Canada and London had disappeared. However, the Euro-dollar market continued to give him concern. It appeared to him to be a threat to the financial stability of Europe, and in the end he felt it might have a serious impact upon the U. S. domestic economy by draining off short-term funds in a manner that seemed to be beyond the control of central banks. It seemed important that the flow of dollar deposits into this pool be diminished, and he feared there was a gap in the interest equalization tax proposal for inhibiting the outflow of capital. The banks were not covered, and they were seeking opportunities to put funds abroad.

As to the domestic scene, the money supply had risen since the first of the year at an annual rate of 3-1/2 per cent, with turnover 5 per cent above a year ago and bank credit still rising rapidly. True, since the first of the year total bank loans and investments had gone up only 7 per cent, annual rate, compared with 8 per cent in the year 1962. The ratio of public liquid asset holdings to GNP in the second quarter was 2 percentage points higher than a year ago. From February 1961 to date, total bank reserves had risen by 7.5 per cent. In the face of all

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this, he was quite content that nonborrowed reserves had remained constant since the beginning of the year. This was now leading member banks to increase their borrowings, a development that it seemed to him the System might have to live with through the fall period.

A point that intrigued him, though probably irrelevant to the formulation of a monetary policy decision, was the impact of the changing mix of demand and time deposits on the expansion potential of bank reserves. In June of last year the ratio of time to total deposits subject to reserve requirements was 4.13; this June it was 4.48. As a result, the amount of deposits supported by \$100 million of reserves--with a time deposit reserve requirement of 4 per cent--was \$970 a year ago, and \$1,003 now. The increase was 3.4 per cent over a year ago, and 9 per cent over June 1960.

During the next three weeks, Mr. Balderston said, he would maintain the prevailing firmness in the money market to aid the Treasury with its scheduled refunding. The second paragraph of the directive might be modified to substitute wording in the third line such as: "maintaining the prevailing degree of firmness." If there was to be a veering of policy in either direction, he would veer in the direction of firmness, but he felt that any significant change might well be considered a little later.

Chairman Martin commented that, as to policy for the period ahead, the Committee members appeared to be closer together than for some time,



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although perhaps for varied reasons. He could not help but say, the Chairman added, that in his judgment both the domestic economy and the balance of payments had benefited from the present posture of System policy, although that might take a couple of months to demonstrate. In view of the general sentiment concerning the domestic economy and apprehensions in the European market, he felt there might be possibilities of increased investment in the United States. There were the makings of a change, even though it might take some time to develop. The interest equalization tax proposal had been received badly by the market, it having been construed rather generally as a first step toward exchange controls, but he believed the sentiment might now be shifting in favor of the Treasury's position. It was his impression that the proposal might get a better reception in the Congress than had seemed likely earlier.

The Chairman continued to feel that the balance of payments problem was the greatest single shadow over the domestic economic picture. He believed the posture of the System placed it in a fairly good middle ground, and he questioned whether any further lessening of ease at this point would actually be of benefit. Instead, he was inclined to feel that maintenance of the status quo probably was called for at the moment. As Mr. Balderston and others had pointed out, the Treasury was going to come into the market during the next few weeks. Whether the Treasury would decide on an advance refunding, he did not

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know; that was going to involve a rather difficult decision for the Treasury. In any event, however, it should be borne in mind that for a long period Treasury debt management policy had been not only supplementary but complementary to Federal Reserve monetary policy. This was a period when it would seem well to let the Treasury feel its way along, without additional complications, on whatever debt management decisions it might make.

Chairman Martin said that although he remained rather skeptical about the so-called twist operation, he did not believe in changing horses in the middle of the stream. The benefit of the doubt, he thought, should be given to the operation because it was directed toward helping the balance of payments problem as much as possible and with a minimum of drag on the domestic economy.

The Chairman added that he thought the Desk had performed well in the past period. Certain market participants with whom he had talked had been impressed, despite their preconceptions, with the activities of the Desk. It seemed to him that, as he had said, it would be well to give the twist operation the benefit of the doubt and pursue it somewhat further.

The Chairman also said that he would like to make a comment about the word "peg," which was being used rather freely. He still thought of a peg in the sense of standing ready to purchase securities any time the price reached a certain level. While he believed in a

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free market, he did not delude himself into thinking that System activities were not bound to influence the market, although Federal Reserve operations should be of a residual or marginal character.

Chairman Martin concluded by saying that since the Treasury was facing a difficult period and since there appeared to have been some element of success in what the System had done thus far, it would seem to him advisable to continue the status quo. The outcome was not clear, but the System would benefit in the sense that the whole world would realize that the balance of payments problem was being tackled. If the current program did not work, presumably other operations would be instituted. For all of these reasons, he would favor maintaining the status quo for the time being.

The Chairman then proposed that the question of policy for the period immediately ahead be considered by the Committee on the basis of continuing the first paragraph of the policy directive without change and changing the second paragraph to read that open market operations should be conducted with a view to maintaining the prevailing degree of firmness in the money market, while accommodating moderate expansion in aggregate bank reserves.

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 Account in accordance with the following current economic policy directive:

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It is the Committee's current policy to accommodate moderate growth in bank credit, while putting increased emphasis on money market conditions that would contribute to an improvement in the capital account of the U. S. balance of payments. This policy takes into consideration the continuing adverse balance of payments position and its cumulative effects and the high level of domestic business activity, as well as the increases in bank credit, money supply, and the reserve base in recent months. At the same time, however, it recognizes the continuing underutilization of resources.

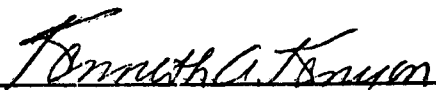
To implement this policy, System open market operations shall be conducted with a view to maintaining the prevailing degree of firmness in the money market, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin,  
Balderston, Bopp, Clay, Irons, Mills, Mitchell,  
Robertson, Scanlon, Shepardson, and Treiber.  
Votes against this action: none.

In a comment with respect to his vote, Mr. Treiber said he would understand that if the issuance by the Treasury of additional bills should result in an increase in the short-term rate of some modest amount, that would not be inconsistent with the directive.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, September 10, 1963.

The meeting then adjourned.

  
Assistant Secretary.