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, September 29, 1964, at 9:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Daane[1/]
Mr. Hickman
Mr. Mills
Mr. Mitchell
Mr. Robertson
Mr. Shepardson
Mr. Swan
Mr. Wayne
Mr. Bryan, Alternate for Mr. Shuford

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

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

Mr. Young, Secretary
Mr. Sherman, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Noyes, Economist
Messrs. Brill, Furth, Garvy, Grove, Holland, Koch, Mann, and Ratchford, Associate Economists
Mr. Stone, Manager, System Open Market Account
Mr. Coombs, Special Manager, System Open Market Account

Mr. Cardon, Legislative Counsel, Board of Governors
Mr. Partee, Adviser, Division of Research and Statistics, Board of Governors
Mr. Reynolds, Associate Adviser, Division of International Finance, Board of Governors
Mr. Axilrod, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Miss Eaton, General Assistant, Office of the Secretary, Board of Governors

1/ Entered meeting at point indicated in minutes.

Mr. Francis, First Vice President of the Federal Reserve Bank of St. Louis
Messrs. Eastburn, Baughman, Tow, and Green, Vice Presidents of the Federal Reserve Banks of Philadelphia, Chicago, Kansas City, and Dallas, respectively
Messrs. Sternlight, Brandt, and Bowsher, Assistant Vice Presidents of the Federal Reserve Banks of New York, Atlanta, and St. Louis, respectively
Mr. Geng, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Anderson, Financial Economist, Federal Reserve Bank of Boston
Mr. Kareken, Economic Consultant, Federal Reserve Bank of Minneapolis

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on September 8, 1964, were approved.

Before this meeting there had been distributed to the members of 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 September 8 through September 23, 1964, and a supplemental report for the period September 24 through September 28, 1964. Copies of these reports have been placed in the files of the Committee.

Supplementing the written reports, Mr. Coombs said the gold stock would remain unchanged again this week, and the Stabilization Fund would probably close out the month with a gold balance of around $183 million. So far this month, the Gold Pool was just about in balance as private buying had absorbed nearly all of the flow of South African gold. The Russians had remained out of the market

despite the rise of the London gold price to relatively attractive levels during the last week or so. It now looked fairly certain that Russian sales between now and the end of the year would run much below last year's levels. The London gold market might become a trouble spot again before the year was over, Mr. Coombs said.

On the exchange markets, the main feature had been recurrent selling pressure on sterling since the middle of September, mainly owing to election uncertainties and some worsening of the British trading position. Over a six-day period beginning on September 14, the New York Bank joined forces with the Bank of England in market operations designed to put a floor under the sterling rate at around the $2.7830 level, and these operations seemed to have had a useful effect in steadying market confidence. In the process, the New York Bank acquired a total of $10 million of sterling for System Account and a further $4 million for Treasury account. The market had subsequently remained in a more or less balanced position although last Friday (September 25) and again yesterday (September 28) the Bank of England was forced to intervene in moderate volume. So far, a potentially dangerous period had been gotten through with far less strain than seemed likely a few months ago.

To help finance its market intervention, Mr. Coombs said, the Bank of England had drawn a total of $85 million on the swap line with the System and had also secured similar short-term credits from other European central banks and from the Bank of Canada. The British Government probably would acknowledge receipt of such central bank credits in

connection with publication of their end-of-September reserve figures, but might withhold figures on the sum total of such credits or on how much had so far been drawn. Mr. Coombs had the impression, however, that the British wanted to show some increase in their end-of-September reserve figure as evidence of central bank credit assistance and had probably been trying to decide how much of a reserve increase they should show. Yesterday, the Bank of England repaid $25 million of the $85 million drawn on the swap line, and another $25 million today, so they might have decided to show only a relatively small reserve increase and to imply that sizable unused credit margins were still available.

Mr. Coombs commented that a very tight credit situation in the Dutch guilder market had resulted in further heavy repatriation of funds by the Dutch commercial banks, as well as inflows of both short- and long-term funds from other European centers. As a result, the System had drawn a total of $95 million against the $100 million swap line with the Netherlands Bank, and had also swapped into guilders a total of $10 million equivalent of sterling for System Account and another $10 million of sterling for Treasury account. Despite these operations, the dollar holdings of the Netherlands Bank remained only $5 million short of their $200 million ceiling, while there was only $5 million remaining under the swap line. If this $10 million margin did not suffice to deal with possible further inflows into the Netherlands, the U.S. Treasury might be able to employ $25 million worth of guilders recently drawn from the Fund to absorb temporarily further

dollar accruals by the Netherlands Bank. Mr. Coombs said that in several telephone conversations he had had with the Dutch authorities they had seemed disturbed and puzzled by the size of the inflow, and had indicated that they hoped to take action shortly after the end of the month to ease the market through open market purchases of Dutch treasury bills.

Mr. Mills inquired whether the Dutch situation was largely a reflection of repatriation of guilders rather than an inflow of dollars seeking a higher interest return. Mr. Coombs said it was his impression that the bulk of the inflow reflected repatriation by commercial banks. The Dutch commercial banks had been carrying a substantial net dollar position.

Mr. Mills asked if the Dutch were moving towards an adverse balance of payments position that would suggest a reversal of the dollar inflow, and Mr. Coombs commented that the Dutch balance of payments had been adverse on current account since the first of the year. In the first five months their deficit was over $200 million, a substantial amount for a country of that size. There had been some improvement in July, perhaps partly because of tourist expenditures and other seasonal factors, but the deficit still was sizable. If their capital account came into balance their current account deficit might give the System an opportunity to pay off the swap drawings.

In response to a further question by Mr. Mills, Mr. Coombs noted that the Netherlands Bank had issued instructions to commercial

banks not to incur a net debtor position as a result of borrowings abroad. He would assume that this instruction would be effective. Whether or not they would be able to prevent other private enterprises from borrowing abroad was another question. In general, this had been the loophole in the programs of various European countries; the central banks had been able to keep commercial banks under control but not non-bank private enterprises. He thought the only solution would be an easing of the restrictive credit policy of the Netherlands Bank.

Mr. Mills then asked whether the Dutch were likely to be open-minded about any dollar accruals in excess of their $200 million ceiling or whether they would want to convert them to gold. Mr. Coombs replied that he did not think they would convert to gold. He was not overly concerned about the Dutch situation, which he though was much more of a problem for them than for the United States.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the System open market transactions in foreign currencies during the period September 8 through September 28, 1964, were approved, ratified, and confirmed.

Mr. Coombs observed that the $250 million standby swap line with the Bank of Italy would mature on October 20. He requested approval of a renewal of this arrangement, with an extension of term from six to twelve months. He had discussed such an extension with representatives of the Bank of Italy, and they were agreeable.

> Renewal of the swap arrangement with Bank of Italy, with extension of term from six to twelve months, as recommended by Mr. Coombs, was approved.

Mr. Coombs noted that a Japanese drawing of $50 million on the swap line with the System had been made on April 30 and renewed for another three months on July 30. The Bank of Japan planned to pay off $30 million of this drawing tomorrow, September 30, and might well pay off the remaining $20 million before the next maturity date, October 30. In the event that they were unable to do so, however, he would like to request Committee approval of an extension for an additional three months. Also, on November 2 a $30 million drawing made by the Bank of Japan at the end of August would reach its first maturity, and Mr. Coombs requested approval of renewal of this particular drawing for another three months if the Bank of Japan should so request. In general, Mr. Coombs said, he was favorably impressed by the attitude of the Bank of Japan with respect to swap drawings. They seemed to understand fully the desirability of repaying drawings relatively rapidly, with no more than one or two renewals at most. He was hopeful that expected improvements in their trade balance would make it possible for them to clear up their outstandings by November.

> Renewal of the two drawings by the Bank of Japan on the swap arrangement with the System, if requested by the Bank of Japan, was noted without objection.

Before this meeting there had been distributed to the members of the Committee a report from the Manager of the System Open Market Account covering open market operations in U.S. Government securities and bankers' acceptances for the period September 8 through September 23, 1964, and a supplemental report for the period September 24 through

September 28, 1964. Copies of these reports have been placed in the files of the Committee.

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

> I indicated at the last meeting of the Committee that the job of conveying to the public the fact that monetary policy had changed, but only gently, remained to be completed. I can now report that during the past three weeks that task has been completed. The public now understands that policy underwent a shift toward less ease a few weeks ago, but that the shift was a moderate one that did not necessarily carry any adverse implications for long-term interest rates. Furthermore, the effects of the shift are now more fully reflected in various market indicators than at the time of the last meeting. Member bank borrowings are running somewhat higher than in earlier months, and initial free reserve figures are coming out lower (although after-the-fact revisions of these figures continue to plague us). Dealer loan rates have also risen, partly, I should add, because of the inability of city banks to draw into the money market the heavy excess reserves that have recently been lodged in country banks. Also, Treasury bill rates have edged higher. The average issuing rate for three-month bills in yesterday's auction was 3.56 per cent, compared with 3.51 per cent in the auction immediately before the last meeting. Rates on three-month bills continue to reflect the fact that that issue matures in December. I would expect rates to edge somewhat higher over the next two or three auctions as the three-month bills begin to carry January maturity dates. Additional sales of bills by the Treasury may also tend to produce higher rates; current tentative plans call for the announcement by the Treasury of an additional $1.5 billion of March tax bills later this week, and possibly another issue of $1-$1.5 billion bills later in October. Apart from these projected bill offerings, however, no Treasury financing is expected until the end of October, when the Treasury will announce the terms of its November refunding. At around that time the Treasury may also sell some June tax bills.
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> The markets for longer term issues have performed well over the past three weeks. With the developing consensus that the policy shift did not necessarily imply much upward pressure on long-term rates, investors developed a greater willingness to commit funds to longer term markets. Treasury bonds moved upward in price, partly erasing the declines that

had occurred over the preceding few weeks. Some new corporate issues moved quickly into investors' hands at yield levels slightly below those prevailing only two weeks ago. A large new municipal issue moved out well last week and prices turned steady after having declined rather sharply earlier. The new issue calendar for municipal bonds remains rather sizable, however, and a substantial volume of municipal securities remains on dealers' shelves. The corporate market is in a better technical position, since dealer inventories have been pared and the calendar of forthcoming offerings is below recent levels. In the Treasury bond market, dealer positions have declined to the point where the only area in which there can be said to be any appreciable overhang of securities is in bonds over 20 years. Dealer positions in that sector, which were about $200 million at the time of the last meeting, declined to the neighborhood of $160 million two or three days thereafter, and held there until last Friday, when there was a further decline to about $145 million. It will take a reduction of another $75 million or so to put the long-term Treasury bond market in a firm technical position.

I should like to close with a word about free reserves. We have thus far been successful in avoiding a negative free reserve figure, both on initial publication and in terms of revised figures. I hope the Committee is aware that these statistics are still subject to large errors in estimation and that with free reserves ranging as low as they are the time will very likely come when a net borrowed reserve figure will emerge despite our best efforts to prevent it. If this should happen, I would hope that the first occurrence would be the result of an after-the-fact revision. The market would, I think, take that in stride. A net borrowed reserve figure on initial publication would elicit considerable discussion and probably some market reaction, although even in that case I would not expect any drastic result from an isolated negative figure.

Mr. Mills asked whether the Desk had felt an obligation earlier to operate in the coupon market in order to ease the tight situation of dealers who were overpositioned, and, now that dealers had brought their positions into more conservative areas, whether the Desk would be less active in the coupon market.

Mr. Stone replied that during the three weeks before the previous meeting the Treasury bill rate had been under strong downward

pressure, as he had reported at that meeting, while the availability of coupon issues in the market was heavy. Given the Committee's instructions at the August 18 meeting, it seemed appropriate to supply the large volume of reserves needed before Labor Day through the acquisition of coupon issues, thus minimizing the downward pressure on the bill rate. However, more recently the situation had changed considerably. Treasury bill rates now were trending higher while dealer positions in coupon issues had declined. The Desk would have to supply about $1/2 billion of reserves over the next 2-1/2 weeks, and he would expect that most of this would be done through bill purchases and repurchase agreements, and only a small part through acquisition of coupon issues.

Mr. Mitchell referred to Mr. Stone's conclusion that dealers would have to reduce their holdings of securities maturing in over 20 years by about $75 million before the market would be in a good technical position, and he asked whether any nondealer banks held significant amounts of such securities that had been acquired with the intention of reselling within a short period. Mr. Stone said he thought some banks had acquired securities with this intention during the July advance refunding, but over the 2-1/2 months since that refunding they had had ample opportunities to dispose of the securities at a profit. In his judgment such banks generally had taken advantage of these opportunities, and for the most part present bank holders of the securities in question were content to retain them for the sake of their interest return.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions in Government securities and bankers' acceptances during the period September 8 through September 28, 1964, were approved, ratified, and confirmed.

Chairman Martin then called for the staff economic and financial reports, supplementing the written reports that had been distributed prior to the meeting, copies of which have been placed in the files of the Committee.

Mr. Koch presented the following statement on economic conditions:

The domestic economic news that has become available since our last meeting has been generally favorable. It confirms continuation of the unusually long-lived upswing we have been experiencing for over 3-1/2 years. Some recent developments, however, underline the possibility that excesses may develop to threaten the sustainability of the expansion. On the other hand, some developments are similar to those that often characterize the later phase of expansions and raise the question as to whether we are likely to see the end of the current expansion sometime in 1965.

As for some of the specific new economic developments, our industrial production index was up another eight-tenths of a point in August, about the average monthly rise thus far this year. It probably is showing another substantial rise in September. Steel and machinery production, which remained robust throughout the usually slack summer months, have continued strong in recent weeks; and production of the 1965 auto models quickly reached high gear prior to the GM strike. In contrast, unemployment, employment, and the labor force are all probably little changed in September.

Retail sales in August were up about 1 per cent from July; and September sales to date appear to have changed little from the record August level. It is shaping up as a bang-up holiday season for merchandisers, although consumption in the months ahead may not maintain its recent 2 per cent per quarter rate of increase. The direct effects of the tax cut are likely to diminish and maintenance of

a rapid rate of increase in consumer spending will become more dependent on larger increases in personal incomes than we have been getting.

As for business spending, unfortunately the latest inventory data are for July. Some pickup in the rate of accumulation, though, is in prospect on the basis of anticipations data, and growing concern is being expressed about the possibility of heavy hedging accumulation of steel stocks. Auto companies and some other steel users are apparently beginning to build up such stocks. This suggests that the steel industry is not likely to follow a steady course in coming months. The only major factor working against such a destabilizing development would be an early steel wage settlement. Such a settlement could come well before the May 1 deadline, possibly as early as before the end of this year, thus removing the main reason for the acceleration of steel stocks.

Manufacturers' new orders for durable goods were down in August, but the decline was due mainly to defense ordering, which had also been responsible for a large share of the sharp rise in orders in July. Although new orders in recent months have averaged about 10 per cent higher than late last year, unfilled orders for such goods, as a whole, are still only about 2-3/4 times current sales. In the investment boom of the mid-1950s, unfilled orders in these lines amounted to over 4 times current sales. The situation is somewhat tighter for machinery and equipment where current unfilled orders are 3-1/2 times sales as compared with 4-1/2 times at their peak in the mid-'50s.

Another important economic development that has occurred recently has been the labor settlements in the auto industry. I am assuming that the General Motors strike, due to disagreement about work standards rather than basic wage or pension demands, will be short-lived and will end in a settlement involving about the same increase in labor costs as at Chrysler and Ford. The settlements at Chrysler and Ford were more costly than we had thought they would be and could have undesirable effects in encouraging settlements elsewhere that might contribute to price advances. The staff estimates that they involve an annual rate of increase in labor costs of between 4.3 and 4.5 per cent, excluding the cost-of-living benefits.

Having said this, at least the immediate inflationary impacts of these settlements can be exaggerated. In the first place, in the auto industry itself, two-thirds of the higher costs were in larger pensions and fringe benefits; the usual September advance of 2-1/2 per cent in money wages was skipped this year.

Secondly, the major producers have already announced prices of 1965 models, which appear to be essentially unchanged from those of the 1964 models. This holding of the price line is not surprising in view of the recent high rate of productivity increase in the industry.

Finally, although the auto settlements set up a target for the unions in other industries to shoot at, it is not at all clear that many of them will achieve that target. Auto settlements in the past have not always been a bellwether of settlements in other industries. Moreover, only a limited number of key labor negotiations are scheduled for the rest of this year and early next year.

I have already mentioned the most important one in steel. Steelworker demands may be limited because there is great concern within the union about the declining trend in steel employment and the large inroads in domestic steel output that have been made by other domestic materials and by imports. On the other hand, steel profits have risen sharply, and if steel output continues high, workers are likely to obtain some wage increase, the first (not counting fringe benefits) since 1961. How substantial any increase may turn out to be is of course a speculative matter, but present indications are that it is not likely to be anywhere near as large as the 8 per cent annual increases of the mid-1950s.

In the price area, the long-expected increase of 2 cents in copper prices of domestic producers has come, and copper prices in world markets continue sharply above U.S. prices. Markets for nonferrous metals generally remain tight and small increases continue to be announced for some finished manufactured products. On the whole, however, price increases have been scattered and have been accompanied by some declines, including some in the steel industry where the talk has all been about hoped-for increases. The over-all wholesale price index for industrial commodities has been stable in August and thus far in September.

Thus, I conclude this morning that despite the rather rich auto settlements and some further selective price rises, the economy continues to experience an orderly and reasonably well-balanced expansion. Its pace appears neither to have accelerated nor decelerated. Some recent developments on the wage and price front will require careful watch, but excesses and destabilizing forces are still mainly potential; at the moment they do not appear to require decisive corrective action. Finally, and recognizing the lags in the effects of monetary policy, we may be entering the later stages of the current expansion when housing expenditures, which presumably are appreciably affected by financial conditions, are already declining for reasons of demography and choice, and when Government expenditures are leveling off.

Mr. Daane entered the meeting during the course of Mr. Koch's presentation.

Mr. Holland made the following statement concerning financial developments:

A glance back over financial developments in the six weeks since the Committee altered its monetary policy can easily generate mixed emotions--a sense of relief that the change has been carried through without serious bond market repercussions, but concern that the intervening bank credit and monetary expansion has nonetheless been very large. One possible explanation consistent with both results is that the change of policy was so small as to have no effect in either area. A more extended explanation, to which I am persuaded, is that we are living through another of those occasions when a modest shift in monetary policy has coincided with a sizable increase in credit demands, of a duration that is as yet uncertain, and of a type that has thus far focused the bulk of its pressures on the banking system.

The chief element of change on the demand side appears to be a belated increase in business demands for external funds, following a long period in which internally generated funds served to finance an unusually high proportion of total business operating and investment outlays. Most recent evidence of such a shift consists of stronger than seasonal bank loan increases by a growing number of industries, over the tax date and by some lines for several weeks before. These include such cyclically significant borrowers as metals, petroleum and chemical, trade, public utility, and miscellaneous manufacturing firms. The sharp run-off of corporate holdings of CD's over the tax date, and the recent greater difficulty and higher cost with which dealers have obtained corporate RP's, are further signs in this direction.

In general, the capital markets have thus far been little strained by the pressure of the latest increases in credit demand. Each of the three major markets for debt securities has felt some supply pressures in recent weeks, as Mr. Stone has pointed out in his reports, and each has undergone a differing degree of upward yield adjustment as a consequence. In no case, however, has that yield adjustment been large to date. That the capital markets have done as well as they have reflects a continued very large flow of funds into savings and investment intermediaries.

While the GNP savings rate seems to have declined somewhat in the third quarter from its high post-tax-cut level, the flow of financial-type savings into savings institutions has continued unabated, at least through August. And demands upon these institutions by borrowers other than businesses seem to have mounted less this year than last.

For the commercial banks, the direct and indirect pressure of corporate cash needs appears to have led to large seasonally adjusted deposit creation in September, on the heels of vigorous expansion in each of the three preceding months. Average total member bank deposits are expected to have increased at about an 11 per cent annual rate in September, compared with an 8 per cent average over the June-August period. The portion of that deposit growth that took the form of money supply additions was quite large through mid-July, and then was relatively moderate from mid-July through mid-September; but most recently the money supply increase has apparently been sharp once again.

Asset acquisitions by banks during this period of strong deposit expansion have varied. In August, the largest step-ups in bank asset growth occurred in investments, both Governments and other securities. As the dividend and tax date passed, bill holdings, business loans, and dealer loans all mounted more than usual, and CD's outstanding dropped as banks bore the brunt of corporate and dealer adjustments.

The reserves to support such bank credit expansion up through mid-September were made available irregularly, reflecting not only inadvertent fluctuations in free reserves but also varying reserve distributions between country and city banks. City banks borrowed sizable amounts of funds through the Federal funds market, and also stepped up their borrowing at the discount window Since the tax date credit bulge, the sense of pressure on city banks has tended to be greater, first inside and then outside New York City. These banks have raised rates on dealer loans, sold Governments in some instances (although not on a net basis), and tried to continue buying Federal funds, although in total the supply of Federal funds has contracted, and can be expected to contract further, because of the competitive attractiveness of a 3.55-3.60 per cent bill rate. At the same time, given present System reserve targets, the reserve city banks are probably going to continue bearing most of the weight of $300-$400 million average indebtedness to the Reserve Banks.

It seems to me that such a discounting need is not yet fully appreciated by the banking system, and that as such pressure settles down upon particular banks. some liquidation of the earning assets acquired in recent weeks and months may well occur. Aggressive CD sales may also be attempted. Both types of action would produce some further

upward yield pressures in whatever sectors of the market banks chose to concentrate their actions. Some bank demand deposits would be absorbed in the process, and the resultant over-all net growth in bank credit and money would be rendered somewhat more moderate. I must say this strikes me as the most likely expectation of what would happen if reserve availability were to be held about where it is now by appropriate System action.

But if this does not prove to be the case, and if bank credit should continue to mount sharply, then we will need to look carefully for one or two possible contributing factors: a dulling of the discipline of the discount window, particularly for larger banks; and/or a more lasting kind of upward shift in demands for bank credit and money, particularly by business. With regard to the first of these factors, I myself think that our discount procedures are tight enough to stand the current strain, although as bill rates are inched further and further above the discount rate the handicap imposed upon discount administrators grows greater and greater. Insofar as the possibilities of a major and longer lasting shift in demands for bank credit are concerned, this cannot be judged at this moment, so close to the possible event and with such partial information. Changing demands for bank credit and money need to be viewed in the perspective of seasonal and cyclical shifts in other financial stocks and flows, and against the background of current and prospective pressures on resources. The staff plans to present a formal projection of GNP and related flows of funds at the next meeting of the Committee that we hope may be of assistance in this regard.

Mr. Mitchell asked whether the larger than usual business cash demands over the tax and dividend dates in September reflected some structural changes in the attitude of corporations toward cash balances and CD's.

Mr. Holland replied that during September corporations apparently made net reductions in their holdings of all types of interest-bearing liquid assets. What this signified was not yet clear. He had heard of comments by individual corporate treasurers to the effect that cash flow had slowed down. This might reflect growth in

accounts receivable, inventory building, or a step-up in various types of outlays. No statistics were available on business outlays on inventories, operating expenditures, and capital expenditures in September to validate a judgment that corporations were changing their borrowing-liquidity-spending patterns. It should be possible to see these developments in better perspective later, but it was too early to assess them now.

Mr. Mitchell said he would be surprised if cash flows were slowing down at this point, since profits were rising and depreciation allowances were continuing to make a substantial contribution. Mr. Holland observed that while undistributed profits had shown a large rise in the first quarter they had not risen much since then. Cash outlays currently might be rising faster than the cash throw-off from operations, and corporations could therefore be relying increasingly on the banking system for financing.

Mr. Reynolds presented the following statement on the balance of payments:

> Complete preliminary data for August on U.S. reserves and liquid liabilities (including Roosa bonds) show a payments deficit of $285 million without seasonal adjustment; this is smaller than was expected at the time of the last meeting. Indicators for the first three weeks of September suggest a deficit this month of less than $200 million, despite a large transfer to Canada by U.S. power companies. For the quarter, the unadjusted deficit on regular transactions may be about $1.1 or $1.2 billion, assuming no change in military prepayment accounts. Seasonally adjusted, this would be about as large as the second quarter deficit, now revised downward to $2.7 billion at an annual rate. But it would not be appreciably larger, as had earlier been feared.

I should point out that the figures ultimately published by the Commerce Department for the third quarter may look better than this. Sales to the Canadian Treasury in September of $204 million of nonmarketable U.S. Government securities may be treated statistically as an ordinary long-term capital inflow above the line, instead of being treated like all previous sales of such securities. But I and my colleagues on the Board's staff see little reason to treat these particular securities differently from earlier ones; so we have made our calculations on the old basis.

U.S. reserves of gold, convertible foreign currencies, and the IMF gold tranche position will have changed very little during the third quarter. Liabilities to foreign official institutions, including all Roosa bonds, will have increased by perhaps $600 million. Thus, these official settlements have financed only about half of the unadjusted deficit on regular transactions. The other half was financed by private foreign holders of liquid assets in this country--mainly commercial banks--who increased their holdings contraseasonally.

U.S. banks report only negligible net outflows of U.S. short-term private capital in August; we have no details yet. In July, they reported no significant outflow on short-term loans and acceptances, and an inflow of liquid funds that was only partly offset by outflows reported by nonfinancial concerns. Thus, there is no evidence yet of any net outflow of U.S. short-term capital in the third quarter, whereas in each of the first two quarters there had been record outflows of $600 million. (There was an equally abrupt reversal last year, but not in earlier years.)

On the other hand, long-term outflows--other than direct investments, for which we have no data--have increased this quarter. Net long-term lending by U.S. banks in July and August totaled $120 million, and was above the average rate for the first half year. Net U.S. purchases of foreign securities were negligible in July, and new issues in August were apparently nil. But in September, new issues may total $100 million; and, in addition, U.S. power companies made a $250 million capital payment to British Columbia for 30 years of water control on the Columbia River. These bits and pieces indicate that for the quarter, seasonally adjusted outflows of U.S. long-term private capital other than direct investments were more than double the $250 million average for the first two quarters, although they have probably not risen by as much as short-term outflows have declined.

With the deficit on regular transactions about unchanged between the second and third quarters, it is of some interest to try to see just where we stood in the second quarter, for

which detailed preliminary figures are being published tomorrow in the Survey of Current Business.

The surplus on goods and services (including military sales and expenditures) was high in the second quarter, $7 billion at an annual rate, even though it was down sharply from the extraordinary first quarter peak. In the first half of 1960, a comparable period in many ways, the rate of surplus on goods and services was only $3 billion. The $7 billion rate of the second quarter this year is probably a little above the long-run trend, considering the present unusual conjuncture of strong demand in both the industrial and the nonindustrial countries. But it is clear that there has been a substantial underlying improvement since 1960.

The main reason that this improvement has not reduced the over-all payments deficit as quickly as some of us had hoped is that outflows of U.S. private capital have been enormous. Such outflows were at an annual rate of $5-1/2 billion in both the first and second quarters of this year. This rate is as high as that temporarily reached a year earlier, before the interest equalization tax was proposed and before Federal Reserve discount rates were increased. The outflows have varied in form from quarter to quarter, and only fragments of them can be specifically related to short-term interest-rate differentials. But the total flow must have been influenced by differential credit conditions of all kinds--in long-term as well as short-term credit markets--and specifically by the contrast between continued ease in this country and progressive tightening abroad.

Whether these large capital outflows point towards the desirability of some further firming of monetary conditions in this country depends partly on how important it is to eliminate the over-all deficit fairly soon, and on how much the capital flows would be affected by a moderate change in policy. These are "iffy" questions. But the balance-of-payments case for a policy change becomes much stronger if it can be shown that continuation of the current degree of ease substantially increases the risk of future inflationary developments at home, since these would jeopardize the progress already made in the international balance on goods and services.

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

Business is continuing its solid advance, and the outlook is for a continued advance in activity for 1964 and well into 1965. Among the important favorable factors are the prospect

for rising outlays on plant and equipment and strength in consumer spending, which may well increase as the full effects of the tax cut work through the economy. The only significant areas of relative weakness are housing and a few industries seriously affected by the declining defense orders. While unemployment remains substantial, the level of the rate of recent months, both for the total and for married men alone, has been appreciably lower than last year or early this year.

Undoubtedly the most important developments in our sphere of interest since the last meeting have been the announcement of the labor settlements with Chrysler and Ford and the strike at General Motors. I share the view of many observers that this had brought a good deal closer the danger of a resumption of inflationary tendencies in the economy--in fact the long record of price stability may now be in more serious jeopardy than at any time in recent years. On the other hand, it is too early to assess these prospects accurately, and there are, of course, significant counter-inflationary influences in the form of unused resources and prospects for further productivity gains. It is also possible that part of any general increase in costs might be reflected in lower profits rather than in higher prices.

Although the auto industry itself apparently intends to absorb the higher costs without raising prices, there remains a grave danger that the generous settlements may have pervasive cost and price effects in other areas. The settlements, which were apparently in the range of 4-1/2 to 5 per cent per annum, exceeded both the 3.2 per cent guideline and the increases of somewhat over 3-1/2 per cent gained in each of the years 1958 and 1961 but they were well below the increases of 6 to 6-1/2 per cent in 1950 and 1955. With much of the latest increase taking the form of fringe benefits, it is not clear just how strong the influence will be on labor settlements in other industries, where fringes may tend to differ in nature and where there may be greater resistance on the part of management. I should add, however, that greater resistance might result in serious strikes as an alternative to excessive cost increases, and the prospect of hard bargaining in the steel industry is not reassuring. Furthermore, apart from labor cost effects, the auto settlements may have significant psychological influences in the direction of inflation. This could show up in greater willingness in other industries to attempt price increases, greater interest in inventory accumulation, and higher raw material prices. Although the major price indexes are stable, the index of raw industrial prices has been moving upward, and most individual price announcements in the last week or two have been in that direction. On the other hand, we must recognize that the spurt of inflationary psychology of recent weeks could subside with the passage of time.

In evaluating credit developments, it seems to me wiser to adopt a reasonably long perspective rather than to give much weight to the latest month-to-month fluctuations. On this basis, it seems clear that bank credit and the money supply have been growing this year at just about the same substantial pace as last year, while the growth of time deposits has been somewhat slower. With total bank credit up at the rate of about 7 per cent per annum in the first eight months, it seems to me that the System has been doing all that could possibly be expected to facilitate the business expansion.

The balance-of-payments data for September and the third quarter are, of course, still uncertain, but I suspect that the favorable results in the first two weeks of September reflected a return flow of corporate funds to meet tax and dividend needs, and payments data may well show a reversal over the next month or so. While the third quarter deficit probably will be smaller than seemed likely a month or so ago, it will nevertheless be much higher than it should be. As was predicted so often early in the year, the very favorable trend in the balance of payments in late 1963 and early 1964 has not been maintained, and the prospective deficit for the full year 1964 is still disturbingly high. I was impressed anew at the annual meeting of the IMF and World Bank in Tokyo by the fact that, although the dollar has been reasonably firm in the exchange markets and still enjoys a high degree of confidence, there is a pronounced underlying uneasiness as to our ability and will to get our balance of payments problem under control. And as a result of this, our bargaining power in the international financial sphere is being steadily eroded.

The present combination of domestic and international conditions is not one that would seem to call for a prompt and decisive change in monetary policy. Nevertheless, I don't see how we can view these conditions without a feeling of apprehension and without suspecting that the System is being driven gradually and inexorably by the force of events toward a less easy policy.

From a strictly domestic point of view, the threat to price stability looms rather large, but a real inflationary surge is still only a threat rather than a reality--hence we can afford to await further evidence of a general inflationary trend before making a policy change on this ground. If we look at the international side, the question is more perplexing, but I think we would still be justified in deferring a decisive move, such as a discount rate increase. Although the balance-of-payments deficit continues to run at or above the $2 billion level, cross currents in recent weekly data obscure the case for an immediate and overt

policy change. Moreover, the political realities--both national and international--would suggest a need to make a particularly persuasive case for any such move. I am concerned, however, not only with the problem of relative interest rates, credit availability, and resultant capital flows, but also with the danger that the enhanced possibility of inflation since the auto settlements may undermine still further our international bargaining position and may even jeopardize confidence in the dollar unless it can soon be demonstrated that the System sees this danger and is doing something about it. So I would conclude that the time may not be far distant when a decisive policy change will be necessary.

Fortunately, most of the time between now and the end of the year is clear as far as "even-keel" considerations are concerned, except during the refunding operation to be announced late in October and completed by mid-November. Hence, there should be ample opportunity this fall to review developments here and abroad and to adjust monetary policy to the extent necessary. In the meantime, it would seem to me desirable to maintain present "snug" conditions in the money market and even to move very slightly further in this direction. With the economy moving ahead vigorously, there will probably be a natural tendency toward firmer short-term interest rates in the next few months. I would hope that the System would support this tendency rather than supply reserves so generously as to offset it. A 90-day bill rate objective of 3-5/8 per cent would seem reasonable, with free reserves in the zero to $50 million range. I think the Manager should not be criticized if free reserves occasionally go below zero, although I would not suggest any deliberate effort to get below zero.

As has been mentioned by several Committee members at recent meetings, a reduction in reserve requirements some time this fall to meet a substantial portion of seasonal reserve needs seems to be a useful way of minimizing downward pressure on bill rates. I believe such action could readily be explained as a technical measure adopted for balance of payments reasons and in no sense constituting a measure of increased monetary ease.

As for the directive, the first paragraph, as recast by the staff, rightly eliminates the reference to the slackening of money supply expansion and brings up to date the comments on the balance of payments. However, I think it also ought to include a reference to the inflationary implications of the settlements in the automobile industry. I think the money market conditions I have proposed can be met within the framework of the present second paragraph, although meeting them may require an understanding that the Desk should resolve doubts on the side of less ease.

Mr. Francis reported that since early summer economic activity in the Eighth District had again been expanding, following a pause during the late winter and spring. Employment, manufacturing output, spending, bank loans, and bank deposits all had risen since May. Information on contracts awarded indicated that construction activity had also been rising. However, agricultural crop estimates and price developments indicated that cash farm income in the area this fall might be below year-ago levels.

Payroll employment in the major labor markets of the area had risen at a 2 per cent annual rate since May, Mr. Francis said. All major industry groups shared in the gains. Sharpest increases in employment were in the Memphis, Evansville, and Fort Smith areas. St. Louis and Louisville had moderate gains. Payroll employment figures for the States of Missouri, Arkansas, and Kentucky, which were available through July, indicated that there was also a rise in employment in each of those States in the early summer.

Manufacturing production in the District had risen at a 5 per cent annual rate since May. The volume of construction contracts awarded during the first seven months of the year was about 25 per cent greater than in the corresponding period last year, with substantial increases in each of the District's metropolitan areas. Bank debits had risen markedly since April, after remaining on a plateau since August of last year.

Banking activity in the District had experienced both strong loan demands and marked deposit increases, Mr. Francis observed. Since May, total deposits at all member banks had risen at a 7 per cent annual rate. Time deposits had expanded at a 13 per cent rate and demand deposits at a 1 per cent rate. Both business loans and other loans had risen markedly since May. The dollar gain in deposits had virtually matched the loan increase, and District banks had had to make but limited adjustments in their other accounts during this period. Investment portfolios had remained nearly unchanged on balance; average borrowings at the Reserve Bank had been moderate, and Federal funds purchases and sales had been about equal at the larger banks.

Agricultural conditions in the District had been less favorable this year than last, Mr. Francis continued. Estimated crop production was down in most of the area in line with the national pattern. Corn production in the seven District States was estimated at 8 per cent less than the 1963 output. Oats were expected to be down 25 per cent, soybeans 5 per cent, cotton 3 per cent, and tobacco 18 per cent. Of the major District crops, only rice and wheat estimates exceeded 1963 output. Also, prices of major crops were somewhat less than in 1963. Soybeans were down about 4 per cent, cotton about 3 per cent, and wheat about 25 per cent. Farmers might, however, receive slightly higher prices for tobacco and corn.

The declines in output and prices pointed to a decline in cash farm receipts during the heavy marketing season ahead, Mr. Francis said. In the first seven months of this year, cash receipts from farm

marketings in the District States were slightly higher than in the same months of 1963; the gain was the result of a greater-than-normal carry-over of crops from the preceding year.

Mr. Bryan commented that the Sixth District economy, on the whole, seemed to be expanding. Construction, which had been tending to level off or decline, now was rising, and the figure on insured unemployment was down. Bank deposits were up sharply, as was the money supply both on a strict definition and including time deposits. Banks were experiencing a large loan demand.

It seemed to Mr. Bryan that the Committee's change in policy had been accomplished in an extraordinarily mild and gentle fashion, and expertly. He was not prepared to say whether the economy was going to become inflationary or not; he had been inclined to think that some recent developments were inflationary, but his staff argued otherwise.

With free reserves at present levels, Mr. Bryan continued, he did not see how the Manager could avoid having a negative figure appear inadvertently at some point. But he also believed that at this time the free reserve figure might be a rather dangerous one to use for target purposes, since maintaining free reserves at any selected level would mean supplying all of the reserves demanded. He favored keeping the reserve situation snug, to use Mr. Hayes' term, but he thought that an aggregate reserve figure, such as total or nonborrowed reserves, would be preferable to free reserves as the leading guide to policy.

If he were to give a quantitative guideline in terms of a seasonally adjusted growth rate for total reserves, he would consider the lower part of the range between 2 and 3 per cent to be appropriate. Mr. Bryan saw no reason at this time to take so dramatic a step as to increase the discount rate.

Mr. Bopp said the economy of the Third District was about where a realistic optimist would have predicted it might be in the current phase of an extended recovery in the nation's business--it was doing much better than it had for some years, but the rise had been more sluggish than the national upswing. Unemployment rates in a majority of labor market areas were lower than at any time since 1956-1957. Output was climbing slowly. Department store sales, though not sensational, exceeded the totals of 1963 by a healthy margin.

Increased reserve pressures and greater loan activity were the most significant developments in Third District banking since the Committee's last meeting. The deficit in the basic reserve position of reserve city banks, $94 million for the week ending September 16, was the highest since mid-April. Total loans and investments (adjusted) rose $82 million and business loans, which at last report had declined, increased $29 million.

As the third quarter drew to a close, Mr. Bopp continued to be impressed by the broad forward movement of the economy. Despite the breadth of the advance, however, convincing evidence of excess was not yet present. Inventories continued low compared with sales.

Increases in business spending for capital goods and in State and local government expenditures appeared to be coinciding with a leveling in housing demand and in Federal Government spending--a sort of rolling readjustment. Despite some increases in nonferrous metal and livestock prices, the broad price indexes remained stable. And although the labor contract negotiated in the auto industry might prove to be inflationary, this remained to be seen in the present environment. Meanwhile, unemployment and the level of resource utilization left room for further expansion.

The financial situation seemed to have been changing in line with the Committee's desires, Mr. Bopp remarked. The three-month bill rate was now around 3.55 per cent, and, if adjustment were made for the particular attractiveness of the December maturity, the rate would probably be nearer the 3.60 per cent level. Growth in the money supply had been erratic but the liquidity of the banking system was getting tighter. A study which the Philadelphia Reserve Bank recently made of banks in the Third District indicated that economizing of cash assets had been particularly marked at smaller banks. This suggested that the lag in response of these banks to changes in monetary policy would be less than in the past if the System were to move toward restraint.

On the international front, it now appeared that the third quarter deficit in the balance of payments would be no greater than that sustained in the second quarter. While the payments problem

remained a major concern, the apparent improvement since the large July deficit did provide some encouragement.

In view of the present international environment, and taking into consideration the continuing problem of unemployment and the lack of speculative excess in the domestic economy, Mr. Bopp recommended that the Committee's policy posture be maintained without change. The staff's proposed directive was appropriate, in his judgment.

Mr. Hickman commented that although the economy continued to move along in a generally moderate and balanced fashion, the Committee should not disregard signs of imbalance that seemed to be emerging. In this connection, the settlement in the automobile industry was appreciably in excess of the guidelines. It might, therefore, be difficult for management in other industries to resist similar demands by labor. During the remainder of this year a number of labor contracts would expire between the auto workers' union and companies producing auto parts and farm machinery. Other industries, including steel, would also face stiff labor demands in the near future. In some industries, where profit margins permitted, an increase in unit labor costs might be absorbed, but in other industries the costs might be passed through to the consumer in the form of higher prices. Thus, a rise in industrial prices and a step-up in the rate of rise in consumer prices were possible.

Another area of possible imbalance, Mr. Hickman said, was the accelerated demand for steel, to which he had referred at the Committee's last meeting. Steel companies reporting to the Cleveland Bank confirmed

press reports that auto companies had given notice to parts suppliers and to the steel industry that they were embarking on a steel inventory buildup as a hedge against a possible strike on May 1 next. Present plans appeared to involve an accumulation of inventories equal to three and one-third months' supply, which was a full two months in excess of the supply normally held in this period. Serious pressures had already emerged in the case of flat rolled products, with allocations reported by some producers and with additional older, higher cost plants being pressed into production. Thus, there were prospects of inventory buildup and slump in steel.

Recent developments in the Fourth District confirmed both the general advance of business activity and instances of possible near-term imbalances, Mr. Hickman continued. During the most recent period electric power production showed sharp increases in all District areas in contrast to moderate gains in the nation. This was typical of the District in periods when demand for steel was heavy.

Mr. Hickman reported that rising employment in District steel mills had spearheaded a continued reduction in the level of insured unemployment, which had been occurring at a faster pace than in the nation. As the Board's staff had noted, the Pittsburgh labor market had been reclassified as group "C," after carrying a designation of "D" or worse for almost seven years. The decline in unemployment in Pittsburgh reflected both higher employment and a shrinkage in the labor force. Only one Fourth District area--Wheeling--now had a "D" classification.

The most recent information on District steel developments illustrated an acceleration of activity. Not only were the final order figures for August higher than originally estimated, but estimates of orders coming in for September were the highest in the three years covered by the series. Lead times were being lengthened, with a number of incoming orders being placed for delivery in the first quarter of 1965.

In the light of the imbalances that might be emerging, Mr. Hickman said, one was tempted to recommend a further modest tightening in policy, perhaps to a zero level of free reserves. On the other hand, the Committee must reckon with the fact that any evidence of further System tightening at this juncture could trigger a sharp decline in bond prices and a disproportionate decline in capital spending. Also, further tightening might cause some people to conclude that the System saw sharply rising prices in the near future, which might further encourage speculative inventory building. In short, the Committee should have moved much earlier, but to move now might worsen the situation.

It seemed to Mr. Hickman that about the best the Committee could do at present was to strive to achieve fully the modest shift in policy that was decided upon six weeks ago, aiming at free reserves around $50 million and a 91-day bill rate of 3.60 per cent. He continued to be disturbed by the large-scale upward revisions in the free reserve statistics that pushed the final figures far beyond anything

contemplated by the Committee. This again highlighted the pressing need for more accurate and more up-to-date information on reserve positions across the nation.

The staff draft of the directive was acceptable to Mr. Hickman, although he had no objection to Mr. Hayes' suggestion for adding a reference to the auto wage settlements. He would not favor a change in the discount rate at this time.

Mr. Daane said he agreed with much of Mr. Hayes' analysis, particularly with his conclusion that now was not the time for an overt change in policy. He also agreed that the Committee might find such a time in the early fall, given the portents of the auto settlements and the rather rapid rise that was occurring in the money supply. A gentle change in System policy, reflected in a narrowly lower margin of reserve availability, had been successfully achieved through a skillful performance by the Desk and, he would add--with no intent to minimize the Desk's performance -through some amount of luck. In Mr. Daane's judgment, the Committee should strive to maintain the current market tone, and should not run the risk of pushing its luck too far or of asking too much of the Desk by refining the free reserve target from $50 million down to $20 million or to zero. He disagreed with Mr. Hayes' suggestion that doubts should be resolved on side of tightness. Mr. Daane would accept the directive drafted by the staff and he would make no change in the discount rate.

Mr. Mitchell commented that it was evident from the staff review that some changes might be taking place in domestic economic and

financial circumstances, particularly financial, that soon might require a reappraisal of the Committee's policy posture. However, he did not think the evidence was clear enough as yet to warrant a change in the Committee's current policy. In his judgment, a negative free reserve figure would have an "announcement effect" something like that of a change in the discount rate. He hoped this effect would not be wasted by having a negative figure come about inadvertently; it would be preferable to save it for a time when it was intended as a deliberate signal.

Mr. Mitchell thought that the linkage between System actions and conditions in credit markets was extremely taut at present, so that a small move might have large undesired effects on security prices and credit terms. He was much in favor of maintaining the present posture of policy. The staff draft directive was acceptable to him.

Mr. Shepardson remarked that yesterday he had attended a meeting of institutional lenders to agriculture. As had been the case at a similar meeting four months ago, the discussion had been devoted largely to the heavy competition for agricultural loans and the associated lowering of credit standards and easing of terms. The general attitude was one of concern about the lowering of agricultural credit quality, and representatives of two or three insurance companies reported that their companies were no longer aggressively soliciting farm loans. Concern also was expressed about the continuing rise in land prices.

On the national economic situation, Mr. Shepardson said that bank credit and the money supply were continuing to expand at a higher rate than seemed to him to be desirable or sustainable. He did not know at what point the situation would unfold in figures reflecting price developments, but he felt that inflationary pressures were being generated in the present wage negotiations and in other adverse factors. Personally, he favored acting to forestall inflationary developments rather than attempting to correct them after they were underway. He recognized that he was in the minority on this matter, but he thought it would be unfortunate if an inflationary movement was permitted to get started. In the past when that had happened, the best the Committee had been able to do was to attempt to stop it; a reversal was not possible.

Recognizing realities, Mr. Shepardson said, he would favor a policy about as Mr. Hayes had suggested. Within the framework of the proposed directive, he would advocate working toward the lower level of the free reserve range. He would make no change in the discount rate.

Mr. Robertson made the following statement:

> This morning, even more than usual, I am impressed with the uncertainties that attach to several important current developments--ones that may eventually prove to be the key to future changes in monetary policy.
>
> On the labor front, we have a generous but not necessarily inflationary settlement (and one that is not yet quite a full settlement) in the automotive industry. But as the analysis in the green book ("Current Economic and Financial Conditions") points out, there are about as many reasons for expecting that it will not set a pattern for other industries as for believing that it might.

We have heard a good deal of talk about intended inventory accumulation which, <u>if</u> it emerged, would be a destablizing factor. But we have no evidence as yet of any appreciable deeds to back up these words, either in the inventory statistics themselves or in manufacturers' orders or shipments, or even in price quotations which often give a confirming signal of any onrush in business buying.

We have had strong over-all bank credit and monetary expansion this past month. But whether that is a temporary swing, a rise to finance orderly further advances in spending or the beginning of an upsurge that could eventually carry us to unsustainably high rates of expenditure cannot be determined at this juncture.

We have capital markets that have come through the trials of the last month or so without serious misadventure. But it seems to me that neither the dealers, the investors, nor the commercial banks are as yet fully adjusted to the distinctly tighter money market conditions that have evolved since the September tax date and that we presumably intend to preserve.

And, lastly, we have balance of payments figures that have been oscillating a great deal from week to week and month to month, often in amounts not as great as was initially indicated, and often for reasons not fully comprehended. The latest swing is a more optimistic one, but one that certainly cannot be claimed to have resulted so promptly from our policy shift, and the significance and duration of such improvement is (as the staff has told us) impossible to judge at this juncture.

What, in the light of all these uncertainties, should the Federal Reserve be doing? To guess <u>now</u> that all the uncertainties in the current situation are going to be resolved on the side of an inflationary upsurge seems to me to be putting too much weight on the presumption that the history of the 1950's will repeat itself. In point of fact, we know that the current expansion has been fundamentally different from previous postwar performance--more sustained, more orderly, more noninflationary than ever before. More than once this past year or so, sparks have been struck of the type that ignited inflationary blazes in the past, but this time businesses and consumers alike have been consistently more moderate and sensible in their spending, saving, and investing decisions. I think our presumption ought to be that they will continue so, at least until their actions demonstrate otherwise.

Do we have the "elbowroom" to wait for actual performance, rather than anticipations, to either confirm or overthrow this presumption in the weeks and months ahead?

For the answer to this question, I think we have to turn our minds to the basics of the situation--the relationships of demands to resources. We have increased our use of labor and industrial capacity this past year, but the important facts are that such increased use has been gradual and that additional human and material resources still remain to be employed. Thanks in part to productivity advances, over-all costs have remained under control, and broad measures of prices have continued essentially stable. With a margin of unutilized resources still available to cushion further rises in demand, and the entire banking system on a short rein because of its narrow cushion of liquidity, I think the System needs to worry more about tightening too early rather than tightening too late. In the current environment, the much-advertised "lags" in the effects of monetary policy seem to me likely to be no more than a desirable way of making our influence felt, gradually but progressively, and pervasively when, as, and if we want to act.

Given what has taken place in the past six weeks, I would not want to add to the confusion by a rollback of policy. I would, however, favor maintaining money market conditions no tighter than they have been during September, as we watch to see how business proceeds this fall.

Mr. Robertson added that the proposed directive was acceptable to him.

Mr. Mills said that as he interpreted the staff's appraisal of the economic situation, it was their belief that a point was approaching at which there would be either a downturn in economic activity or a continuation of the moderate acceleration in growth that fortunately had been experienced for a long period. The question had been raised as to whether, with this possibility of downturn or upturn, the Federal Reserve System should follow a policy that would anticipate a downturn. In particular, one reason that had been given against the Committee's following a policy of aggressive or even moderate restraint was that consumer income was not rising to any active degree. However, it would appear to be significant that while previously there had been a large

internal flow of funds moving to a substantial degree into capital expansion programs, there now was observable a rather active demand for bank credit. It was possible that this bank credit would be translated into more aggressive consumer actions than had resulted from the more lethargic flow of internal funds.

With this possibility, another reason existed for anticipating a rising economy and growth of inflationary pressures, Mr. Mills said. He thought the Committee's policy should remain about where it was, but he would have no grievance if reserve positions were slightly tightened. Fortunately, the seasonal expansion in credit demands in itself was working toward tightening, and was buttressing the kind of policy that the System should conduct.

Mr. Mills thought the Committee should be careful to avoid what could be regarded as a past error of showing no flexibility in policy and allowing the language of the directive to remain unchanged for a long period. He thought the financial community should be alerted to be on its toes to adapt its own programs to a System policy that itself was alert to changing conditions. The difficulty that had been experienced in carrying out the recent slight change in policy was an example of the problems that resulted from doing nothing for long periods.

Mr. Mills remarked that references to a reduction in reserve requirements seemed to keep turning up like a bad penny. The suggestion evidently was to avoid having to depress bill yields by buying bills

in the market. However, in his judgment a distinction should be made between the purchase of bills to supply net additional reserves as contrasted with buying bills to relieve reserve pressures on the banking system that otherwise would tighten the market--the sort of development that was now approaching. He did not agree that bills purchased to meet fall reserve needs would exert any downward pressure on bill rates.

Mr. Wayne commented that a landmark had been reached. West Virginia's insured unemployment rate in the first half of this month got down to 2.6 per cent, the same as the national figure. Previously the two rates had been equal in only four widely scattered weeks in the past seven years. In the District as a whole, business continued to improve. Nonfarm employment and factory man-hours rose further in August while bank debits held only slightly below the all-time high reached in July. The Reserve Bank's industrial contracts on balance continued to report increases in orders, backlogs, shipments, employment, and hours worked per week. About one-fourth said that wages had risen, but prices were reported quite stable except for a few instances in textiles, furniture, and lumber. Leading textile producers were reportedly booked solid for the rest of the year with little to sell before next March, and demand for both current and future delivery of several important cotton gray goods apparently remained unsatisfied. The small, scattered price increases in tight areas of the textile market, which had been reported for some time, now seemed more significant since the wholesale price index for cotton products rose

three-tenths of a point in August. In agriculture, most major crops were expected to set production records this year. Marketing of flue-cured tobacco was running 26 per cent ahead of last year but because of slightly lower prices, the increase in dollar sales through mid-September was 25 per cent.

On the national front, Mr. Wayne said, business activity apparently continued to move up moderately from a high level. In August, industrial production, retail sales, and personal income made significant gains to register new records, although the increase in personal income was due in considerable part to higher civil service salaries, including retroactive payments. There were no indications of any reversal in any of these thus far in September. Production of 1965 model automobiles was gaining momentum and, assuming an early settlement of wage negotiations, this should continue. Steel production also showed further gains. But there were several soft spots which suggested that the economy as a whole was not subject to any excess demand. New orders for durable goods dropped 9 per cent in August, housing starts declined nearly 6 per cent to the lowest point since January 1963, and expenditures for new construction were down about 1 per cent. Inventory accumulations continued at a very low rate. Altogether, the economy seemed to have maintained its balance remarkably well under the impetus of the large tax cut last March.

In the policy area, Mr. Wayne continued, the Committee had completed the slight firming movement started six weeks ago. What

effects it would produce, if any, probably would not be evident for some time. The present situation did not seem to him to require any further change. Domestically, the economy was functioning quite well with no evidence of any deficiencies or excesses which called for correction through the use of monetary measures. Internationally, Mr. Wayne did not foresee any gain to be derived from pushing up short-term rates which would justify the risk to the domestic economy. In this situation, he favored a continuation of the present policy with no change in the discount rate. The draft directive was satisfactory to him.

Mr. Clay said that in his judgment monetary policy should continue unchanged for the period ahead. In other words, the policy should be that which now had been implemented upon the basis of the decision made six weeks ago and renewed at the last meeting. While the domestic economy continued to grow in an impressive manner, that growth needed to be further facilitated by an expansive monetary policy. The resources for further growth were available, price developments generally were favorable thus far, and the economy had shown little evidence of the maladjustments characteristic of the later stages of a business upswing.

Moreover, Mr. Clay observed, note needed to be taken of the narrowing of the base from which economic expansion was emanating. Throughout the business upswing, there had been a continuing change in the composition of demand expansion, as evidenced currently by a

further contraction in the residential construction component. As a result of this internal shifting, the burden for further growth had come to rest primarily upon consumer and business spending.

When recognition was given to the importance of orderly conditions at this stage of the business upswing, the recent labor contract settlements in the automobile industry were a disturbing development. It was too early, Mr. Clay said, to know what the impact upon the economy would be in terms of costs and prices. Much depended upon the extent to which the terms of these contracts came to constitute a pattern for settlements in other industries. There could be little doubt, however, that they were a potential threat to cost-price stability in a way that would be very awkward for monetary policy to deal with.

Mr. Clay commented that current monetary policy should have as its intermediate financial target the provision of member bank reserves in sufficient volume to permit commercial bank credit expansion in line with the average growth rate so far this year. For the near-term target, money market conditions should be maintained essentially the same as in recent weeks. The staff draft of the economic policy directive appeared appropriate for the period ahead, Mr. Clay said. In his opinion, no change should be made in the Federal Reserve Bank discount rate.

Mr. Scanlon reported that the level of economic activity in the Seventh District continued to rise. Producers of capital goods were experiencing further increases in orders. Additional firms, particularly machine tools, reported that they were operating at capacity and giving

consideration to possible expansion. However, important Midwest producers of industrial, construction, and agricultural machinery reported that they had capacity to handle additional orders for most of their lines. In some soft goods lines, including paper and chemicals, production was also reported to be at or near capacity in increasing numbers of firms. Lead times on orders were reported to be lengthening somewhat for a broad range of commodities.

Farm cash receipts in the District had been higher through July than in the year-ago period. However, dry weather had reduced prospective production of corn and might cause a decline in marketing of crops during the remainder of the year, which would not be offset fully by receipts from livestock.

Seventh District banking figures indicated some acceleration of credit demands from businesses and consumers, Mr. Scanlon observed. Loans appeared to be rising faster than the usual seasonal, but it was still too early to judge what portion of the mid-September loan expansion represented temporary borrowing for tax purposes. Over the past six weeks borrowing by durable goods manufacturers had been rising more than usual for this time of year. The major District banks expected a more-than-seasonal increase in loan demand during the final quarter of 1964.

Mr. Scanlon reported that the basic deficit position of the major Chicago banks had risen sharply over the tax date as loans rose and CDs matured. Although their net purchases of Federal funds had declined the past week, there were rather severe reserve pressures.

Nearly all of the District's biggest banks borrowed at the discount window last Wednesday.

Mr. Scanlon remarked that there had been several references to the wage settlements in the automobile industry. Mr. Hayes and Mr. Koch had both referred to the settlements as being about 4-1/2 or 5 per cent. This might be absolutely correct but because such a large part of the settlement was in the form of fringe benefits it was difficult to measure the exact costs. One manufacturer estimated the hourly cost over the three-year period of the contract at 60 cents--an increase of about 5 per cent each year. However, this firm estimated that half of this cost, or 30 cents, would come the first year. This was about 7-1/2 per cent, based on an hourly rate of $4.00. While the company might be able to absorb these increased labor costs over the three-year period without increasing car prices, it certainly would pinch them profit-wise the first year. Perhaps this was the type of reaction one should expect from a manufacturer following a wage settlement.

Mr. Scanlon said he did not know what these moves implied. He was concerned about them but he believed that it was too early to determine their impact. As to policy, he agreed with those who recommended an even keel position. He found the draft directive acceptable and he would not change the discount rate.

Mr. Deming said that Ninth District economic prospects were little changed since the previous meeting. Nonresidential building was somewhat stronger in the District than nationally. Bank credit expansion was not nearly as large as for the country as a whole. Loans

were growing, but at a rate only about equal to the average for the past four years. Deposits were expanding, and, if anything, the liquidity positions of District banks had improved. In both August and September loan-deposit ratios declined.

Mr. Deming commented that he had referred on several occasions to a Reserve Bank survey of corporations with headquarters in the Ninth District that operated nationally and in some cases internationally. Results of the most recent survey indicated a continuation of fairly strong upward movements in production and employment, and a prospect of further gains. The profit picture continued good. With respect to prices, in the past there usually had been reports of both declines and increases. In the most recent survey, however, there were no indications of price declines. Out of 25 firms, 6 reported that they had raised some prices in the current quarter, and 5 others anticipated some increases over the next quarter. The changes were not large, but they indicated the prevalence of upward price pressures.

Mr. Deming said he would concur with what seemed to be the majority position on policy, that the Committee's posture should remain unchanged at the present time. The staff directive was acceptable to him. He did not favor an increase in the discount rate.

Mr. Swan reported that during August total employment declined somewhat more in the Pacific states than in the rest of the nation, after rising faster in July. However, neither difference was marked. As in the country as a whole, the rate of unemployment increased 2/10

of 1 percentage point in August, but the level in the Pacific states was 1 percentage point higher than the national level--rising from 5.9 to 6.1 per cent. In the defense- and space-related industries further layoffs were in prospect, despite receipt of substantial new orders for commercial aircraft by some District firms.

Mr. Swan commented that there had been a number of references at recent meetings to the decline in housing activity. He was not sure that the extent to which this decline was concentrated in the western part of the country was fully realized. One might take the "west" to include the States of the Twelfth District plus Montana, Wyoming, Colorado, and New Mexico. On this basis, for the first eight months of 1964 housing starts nationally were 4.1 per cent above the comparable period a year ago, but they were down 8.2 per cent in the west, and up 9 per cent in the rest of the country. The same pattern held for building permits, which were up almost 1.4 per cent nationally, down 11.4 per cent in the west, and up 7.8 per cent elsewhere.

Twelfth District reserve city banks were under somewhat less pressure in recent weeks than earlier, Mr. Swan said. Some banks, in light of higher dealer financing rates, had increased their arbitrage operations in Federal funds, borrowing net in interbank transactions and lending to dealers.

Mr. Swan agreed with those who thought that no change in policy was in order at this point. He definitely would not increase, even slightly, the tightening that had been decided on at the August 18 meeting, preferring to maintain the present position as nearly as

possible. He would accept the directive suggested by the staff, and he would make no change in the discount rate.

Mr. Swan added that if a more decisive policy move became necessary at some point soon it was unlikely that it could be carried out without some effect on long-term rates. He was concerned about the impression that was being given by some spokesmen outside the System that such a policy move could be accomplished without significant effects on long-term rates.

Mr. Irons said that economic activity in the Eleventh District was continuing at a high level, with some small short-run fluctuations but, on the whole, a quite desirable degree of stability. Most recently industrial production was off a little, mainly in durable goods. Construction activity was high, but the number of residential units started was down a bit. Employment was inching up fractionally, and the unemployment figure continued to run at about 4 per cent. Retail trade was down slightly but demand for automobiles was strong. Recent rains had improved the agricultural outlook, and it now appeared that farmers would come out about even, as they usually did, following a period in which the outlook had seemed critical.

At banks, Mr. Irons continued, demand for loans had been strong in all categories. Investments were up moderately, and deposits also were up. The position of large city banks in the District was not as liquid as it had been earlier. With the strong loan demand, banks were stepping up their borrowing from the Reserve Bank a bit and they were increasing their Federal funds purchases on balance. Bank liquidity

positions were such that if it were necessary to firm credit conditions further, the effect would be felt rather promptly at the discount window.

On the other hand, Mr. Irons said, during the past week two of the District's largest savings and loan associations had cut the rates they offered from 4-1/2 to 4-1/4 per cent because the supply of funds to them was greater than they felt they could invest in mortgages of the quality they sought. At a time when the situation of banks reflected tightness, savings and loan associations seemed to have plenty of funds for first-class mortgages.

Mr. Irons commented that the recent mild policy move had been administered effectively and with satisfactory results. He would favor continuing the recent policy over the next three weeks, maintaining about the same standards of reserve availability and preserving the current general market atmosphere.

The Committee had been using free reserves as a target variable for good or ill, Mr. Irons remarked, and he did not think it would be desirable at this time to change horses in mid-stream. The free reserve figure was now at a level from which it could easily drop to the negative side. He did not think the Committee could lower its target if it wanted to avoid negative figures; there was not much leeway below $50 or $75 million. He would not be greatly disturbed by negative figures, but he would prefer that they be avoided if possible.

Mr. Irons said he was not sure he would favor the reduction in reserve requirements that had been referred to as a possible means of meeting seasonal reserve requirements in the foreseeable future. He

would want to think the matter through carefully before forming an opinion. He did not favor a change in the discount rate at this time.

Mr. Irons concluded by noting that he would not be surprised if there were an increase in activity at the discount window even in the absence of a policy change.

Mr. Ellis said that economic conditions in New England remained impressively good but were not spectacular. Despite stability in measures of employment, insured unemployment was registering greater than seasonal declines, and in early September reached lows not matched since 1962. Manufacturing output was continuing to rise slowly.

As he had noted at the previous meeting, Mr. Ellis continued, in financial terms the expansion seemed to be proceeding at a faster pace. First District banks were anticipating an increase in loan demand over the next few months, and the statistics revealed a New England business loan expansion rate 20 per cent faster than the national pace in the past year. Demand deposits were hard to come by, but rapid growth in time deposits--at a 28 per cent rate over the past twelve months, compared with 14 per cent nationally--had been helping to keep the banks in funds. It was evident at several banking conferences held during the preceding week that most District banks had little interest in borrowing through their own notes as long as their time deposit inflow continued.

Turning to monetary policy, Mr. Ellis said he agreed with the staff judgment that developments thus far did not provide clearcut indications that inflationary forces were dominant. However, his own

analysis suggested that the recent auto wage settlements were in excess of productivity gains and contributed to the sentiment that price increases were likely to come. Banks were financing consumer and business spending at a more rapid pace, and the currently high rate of reserve expansion was enabling this borrowing to continue at a rate which he did not consider sustainable. In his judgment the underlying pressures were becoming increasingly inflationary.

From this point of view, Mr. Ellis said, it seemed to him that the Committee's next move should be in the direction of less ease. There was a question of timing, however, and he leaned to the view that the present was not a good time to take overt action. He concluded that it would be desirable to continue the Committee's current policy, but to move as far as possible within the context of the directive towards firmer conditions. He welcomed the Manager's appraisal of probable market reactions to a negative free reserve figure. He thought some imperfection in achieving targets was inevitable, and he was willing to accept the possibility that negative free reserve figures might eventuate. However, he would seek to have free reserves in the zero to $50 million range. He would like to see the rate on Federal funds consistently at 3-1/2 per cent, member bank borrowings consistently above $300 million and perhaps rising over the next several weeks, and short-term rates in the 3.55-3.65 per cent range. He did not favor a change in the discount rate at present.

Mr. Balderston said he agreed with much that had been said around the table. It seemed to him, however, that the applause had

been for the fact that the Committee had not caused anyone much trouble during the past few weeks. He was concerned, for the reason Mr. Mills had suggested, that if the Committee continued to maintain the status quo it might stumble inadvertently into real trouble. He would urge the Committee to continue to make its policy changes smoothly and gradually, and perhaps almost imperceptibly. But he also hoped that the Committee would face up to the dangers now confronting the economy and continue to move in the direction of greater tightness.

Mr. Balderston said he was not appalled by the automobile wage settlements, particularly since they did not call for any wage rate advance for a year. But he was concerned by the accumulation of steel stocks against the possibility of a strike next spring, which threatened the stability of steel production. The economy had lived through this sort of experience in 1956 and 1959, and he sensed it was coming again. The only cure would be an early labor settlement in the steel industry; unless that occurred automobile manufacturers and other users of steel would act to protect themselves.

If the steel industry attempted to match the auto industry's pension program, Mr. Balderston said, their pension costs might be raised as much as 50 per cent. A strong demand for liberalization of pension benefits in steel or elsewhere could prove very costly. Earlier, the steel industry had sought to meet the problem of the impact of automation on employment by its extended vacation plan. In dealing with the same problem the auto industry might have taken a more constructive approach by permitting early retirements.

Turning to the financial figures, Mr. Balderston noted that nonborrowed reserves had grown at an annual rate of 4.5 per cent so far this year, the money supply at a 4.4 per cent rate, and total member bank deposits at a rate of 7.4 per cent. Now that so much time had passed since the advance refunding, he no longer was concerned about the possible ill effects of having free reserves drop occasionally below zero. He did not agree with Mr. Mitchell's suggestion that negative free reserves should be saved for a time when the Committee wanted to use them as a deliberate signal. He appreciated that Mr. Stone had, with great dexterity, brought certain market forces into reasonable balance and that he (Mr. Stone) might want an additional few weeks to achieve a still better balance. In the meantime, however, as Mr. Reynolds had indicated, capital outflows were enormous. It would be hard to handle outflows at a $5-1/2 billion annual rate with any likely trade surplus. In addition, both British and U.S. elections were in the offing, and either might precipitate a run on gold such as had occurred four years ago.

Looking at the statistics involved in the gold drain, Mr. Balderston said, $90 million already had been committed as gold cover in connection with conversion from silver certificates to Federal Reserve notes, and this conversion would continue, pre-empting still more gold. The growth in currency outstanding was taking a still bigger bite out of "free" gold, as was the expansion in System deposit liabilities associated with the growth in the economy that everyone hoped would continue. Because of these factors, Mr. Balderston would use a

reduction in reserve requirements to save some $300 million of gold cover, and thereby delay the day when the country would have to recognize that the 25 per cent gold requirement had been reached or breached. To avoid committing $300 million of gold would postpone that day for possibly a year.

As far as policy was concerned, Mr. Balderston would move the free reserve target down gradually towards zero. If the figure occasionally proved to be negative he would not be disturbed, and he did not believe there would be adverse effects in the bond market.

As to the directive, Mr. Balderston would accept the suggestion made by Mr. Hayes to add a reference to the auto wage settlements. He also would prefer to delete the last clause of the suggested first paragraph, relating to the third quarter balance of payments deficit, which read, "although possibly not as high as in the preceding quarter."

Chairman Martin said he agreed with the position taken by the majority of members. The modest change in policy decided upon at the August 18 meeting seemed to him to be about all the Committee could successfully accomplish at present, and under the circumstances he thought the wisest course now would be to mark time. The Chairman then suggested that a vote be taken on the draft directive prepared by the staff.

Mr. Hayes said he was puzzled as to why no reference to the auto wage settlements had been included in the staff's draft. He noted that a considerable amount of concern had been expressed over the implications of these settlements in the course of the discussion

today. The settlements were a significant economic development however one might feel about their implications, and he thought the directive at least should indicate that the Committee was aware of them.

Mr. Noyes said that the major reason the reference had been omitted was that the staff had had difficulty in framing language that indicated the relevance of the settlements to the "no change" policy decision that the draft envisaged. Also, it was assumed that the text of the policy record entry would reflect any discussion of the matter at the meeting.

Mr. Young commented that it also was the staff's thought that it would be more appropriate to include a reference to wage settlements if and when similar settlements had been made in a number of industries and were part of the basis for a decision by the Committee to move to a firmer posture.

Mr. Hayes said he recognized that the wage settlements would be discussed in the policy record entry, but so would be other developments that were mentioned in the directive. Nor did he think that difficulty in assessing the implications of the settlements for policy invalidated a reference to them. Policy decisions usually were based on a combination of factors, the implications of some of which were clear and others uncertain. The Committee often took note in the directive of significant changes--for example, in the balance of payments--which it did not conclude called for immediate modification of policy. He continued to feel the reference should be included.

In the course of an extended discussion a number of alternative ways were suggested in which a reference to the auto wage settlements might be formulated, and various views were expressed on the desirability of incorporating such a reference in the directive. After this discussion, Chairman Martin suggested that the Committee vote on the directive as originally proposed by the staff.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, 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:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy, while fostering improvement in the capital account of U.S. international payments, and seeking to avoid the emergence of inflationary pressures. This policy takes into account the continued orderly expansion in economic activity, relative stability in broad commodity price averages, and indications that the money supply is expanding rapidly again after some slackening in August and early September. It also gives consideration to current estimates that the deficit in the U.S. balance of payments in the third quarter continued at a high rate, although possibly not as high as in the preceding quarter.

To implement this policy, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

It was agreed that the next meeting of the Committee would be held on Tuesday, October 20, 1964, at 9:30 a.m.

Chairman Martin then proposed that the Committee continue the discussion begun at the meeting of July 28 of the memorandum by Messrs.

Ellis, Mitchell, and Swan, dated June 16, 1964, on the current economic policy directive. It seemed to him that the Committee was making progress on the question of how it should construct its directive. The staff, working with the authors of the memorandum, had been giving considerable helpful attention to the matter, and he thought the Committee should continue to work steadily on it. The Chairman suggested that the go-around resume where it left off on July 28, with Mr. Hickman, and that after it was completed Messrs. Ellis, Mitchell, and Swan be given an opportunity to comment.

Mr. Hickman noted that the statement he would make was little changed from that which he had prepared originally for the July 28 meeting; he had not attempted to update it in light of the discussion at that meeting. He then made substantially the following statement:

> Under the present system, the FOMC reviews the state of the domestic and foreign economy and the financial markets, and on that basis instructs the Manager over the next three weeks to implement a policy that is more easy, less easy, or about the same. Under the proposed system, an attempt would be made to spell out the description of the state of the economy and of the financial variables in great detail, to formulate in quantitative terms of FOMC's long-run policy goals, and to quantify the short-run instructions to the Desk. Two basic issues stand out: (1) The great length of the proposed descriptions, and (2) the problems inherent in attempting to quantify the instructions and goals, given our limited knowledge of financial processes, and our limited ability to forecast various reserve measures that would have to be known with tolerable precision if we tried to instruct the Manager in precise quantitative terms about the Committee's intent.
>
> Because of the great length and detail of the new directive, it would have to be drawn up before each meeting by the Board's staff. The FOMC would then "react" to this document. We might quibble about details, but individual members would have little choice but to accept or reject the package prepared by the

staff. This would mean, in effect, that the locus of policy making would pass largely from the Committee to the staff. I am not entirely sure in my own mind whether this transfer of power would be wholly undesirable, but it would alter the Federal Reserve System as we know it, and it would be of doubtful legality under the present Federal Reserve Act.

To be more specific, the economic and financial data that would, under the proposed system, be contained in elements 1 and 2 are now being reviewed before each FOMC meeting by the Board's staff and by the Research Departments of the several Reserve Banks. Such information is at best never complete nor it it necessarily accurate, and is of course subject to many different interpretations. Under the present system each member of the FOMC evaluates this information and then makes his best judgment. Adoption of the directive would change the procedure, allowing the staff to make the judgments in elements 1 and 2, including possible trade-offs among major policy objectives. More specifically, this would substitute a Washington point of view for a composite based partly on Washington thinking and partly on that of the various sections of the nation.

A second type of problem is involved in an attempt to spell out in element 3 the Committee's long-run policy intent. This element in effect would ask the FOMC to accept the staff's judgment as to current monetary policy and to adopt the staff's guidelines and growth objectives for private demand deposits, and staff estimates of amounts needed to support Government deposits, time deposits, currency in circulation, and so forth. Time and again we have learned that this is a very difficult area in which to project goals; in the final analysis the public makes the choice as to the forms of its liquid asset holdings rather than the FOMC or the staff. To quote from the Illustrative Draft Material for New Directive dated June 17, 1964: "The target level for free reserves of about $100 million continues to be associated with a lower rate of expansion in aggregate reserves, in money supply, and in total bank credit than prevailed in the last five months of 1963, and no factors suggesting a departure from recent relationships are evident." As things actually worked out, free reserves remained around $100 million but the money supply jumped violently over this period at an unsustainable growth rate of 9.3 per cent.

In element 4, short-run operating instructions to the Desk would be quantified. Rather than less ease, more ease, or about the same degree of ease, the staff (acting for the Committee) would decide upon free reserves of, say $100 million, plus or minus $100 million. The range would necessarily be very broad to enable the Manager to hit the target

> because of the large errors in the reserve forecasts, and the differential effects of the regional distribution of free reserves, the volume of borrowed reserves, and the like. Even then, the staff might, retroactively, revise the Manager "out of the range."
>
> Under the new system the Manager would have even more leeway than under the old, unless the staff spelled out all the possible permutations and combinations of side conditions that might occur over the next three weeks. But then, how would the Desk operate if, for example, market conditions and free reserves moved in opposite directions? Would the Desk move gradually and try to stay in the middle of the free reserve range at all times? Or would the Desk wait until the free reserves figures approached the limits of the range before acting? The basic question, of course, is whether the FOMC really wants to be committed to someone's attempts to quantify the color, tone, and feel of the market, given our current limited knowledge of this vast and complex area.

Mr. Bopp commented that Mr. Broida deserved the Committee's thanks for his initial memorandum on the directive of April 8, and that Messrs. Ellis, Mitchell, and Swan had earned gratitude with their memorandum of June 16, which had induced the Committee to do some constructive thinking. He would state at the outset that he was more sympathetic to their proposals than were those who already had commented.

It seemed to Mr. Bopp that there were two main sources of the difficulty in which the Committee found itself: lack of knowledge, and differences in judgment as to the proper mix of objectives--that is, as to the relative weights to be attached to employment and unemployment, price levels, balance of payments considerations, and so forth. As he viewed the proposal, it was aimed primarily at the first difficulty. The main goal evidently was to focus attention on improving knowledge and increasing the stimulus to research. He would emphasize the experimental nature of the approach.

In principle, Mr. Bopp continued, if the Committee had complete knowledge it could give instructions to the Account Manager in terms of either the volume of free reserves or the rate of interest. At the time of his initial introduction to monetary theory some years ago, he had tended to place greatest emphasis on reserve factors, but since then he had become increasingly impressed with the advantages of formulating instructions in terms of money market conditions. The directive had to be written in terms of interest rates if the Committee wanted to give the Manager instructions that he unquestionably could carry out, at least as long as there was an adequate and appropriate inventory of securities in the System portfolio to keep rates from falling and adequate gold reserves to keep them from rising. If instructions were formulated in terms of reserves--whether free, nonborrowed, or total--the Committee never could be sure that the Manager would be able to meet them. The first two paragraphs of the staff memorandum on member bank reserves, dated July 24, 1964, illustrated the hazards. These paragraphs read as follows:

> In the latest 3 weeks ending July 22, free reserves averaged $65 million, about $80 million below the average for the preceding 3 weeks. This fluctuation in average free reserves reflected in part large revisions of the preliminary figures reported for the weeks of July 1 and 8.
>
> In the same 3 weeks, excess reserves and member bank borrowings fluctuated widely. In the week of July 15 country banks built up large reserve surpluses while city banks had to increase borrowings from the Reserve Banks to meet their reserve requirements. In the following week, a country bank settlement period, these banks made their large previously accumulated reserve surpluses available to city banks, which in turn were able to reduce sharply their borrowings from the Reserve Banks. Federal funds trading volume was very large during the week ending

July 22, and the effective rate on these funds declined sharply below the discount rate for the first time since late May.

Mr. Bopp was concerned with the frequent large misses in reserve projections and especially with the size of the subsequent revisions. He asked whether these errors might not be reduced by developing additional information on required reserves of country banks. He felt strongly that the Committee should not give directives in terms that the Manager could not certainly achieve because of the danger that the Manager might otherwise be accused of frustrating the Committee's intentions even though he had in fact acted in good faith

From time to time some members of the Committee had expressed concern because policy had been continued unchanged for a considerable period or because certain magnitudes had not changed. He did not share this concern. If a given monetary policy continued to be appropriate because economic conditions had not changed, that policy should be continued. He saw harm rather than virtue in change merely for the sake of change.

There were several technical matters on which he would like to comment, Mr. Bopp continued. The Committee might ask the Manager to estimate on the basis of his experience the range of reserves, free or some other, within which the Committee could reasonably expect to come. He might also be asked to indicate whether there were any additional technical tools or types of information, such

as improved data on country bank required reserves, that would increase his ability to meet reserve targets.

Mr. Bopp referred to a recent article in the Journal of Finance by Albert Cox and Ralph Leach, on which Mr. Sternlight had commented, concerning the money market disturbances associated with last days of reserve periods, especially biweekly Wednesdays when the end of the period for reserve city banks coincided with that for country banks. There tended to be an easing of rates on these days, as the excess reserves of country banks came into the central money market. Perhaps this problem could be mitigated if not eliminated by having the reserve periods for different groups of banks end on successive days. He appreciated that data for past periods no longer would be relevant to current operations if such a procedure were instituted. This problem would be temporary, however, since data would continue to be collected and experience on the new basis soon would be acquired. There might be other disadvantages to the procedure, but it seemed to have enough merit to warrant further study.

Another possibility worth considering would be to have reserve requirements for country banks for the current two-week period based on their actual average daily deposits in the preceding two weeks, so that the banks would be operating in terms of a known target. Under the present procedure required reserves were not known until the period was over, and the banks had a moving target. There might be problems with this proposal also, but it, too, merited investigation.

Mr. Bopp said he would prefer to have market rates and money market conditions used as the basic operating targets, and, more generally, to employ targets that the Committee was reasonably confident could be hit. If the target happened to be missed he thought the Committee should always indicate the reasons in a subsequent review, in order to forestall mistaken criticisms by historians to the effect that the Manager had failed to follow his instructions.

Finally, Mr. Bopp said, he was pleased to see that interest in the general subject had been heightened at the Board and the Reserve Banks as a result of the proposals for the directive. He also was happy to see work going forward under System committees in compiling an inventory of research work in the area and in undertaking more systematic study of linkages.

Mr. Bryan then made substantially the following statement:

> The subject is one I have studied and briefly talked about on a number of other occasions. The subject is also one on which, admittedly, I have strong convictions. Accordingly, everyone here would correctly assume that I want to compliment and endorse the Ellis-Mitchell-Swan report. I have some sense of satisfaction in the fact that for the first time in my recollection a committee of the Open Market Committee has gone on record as favoring the need for a quantitative directive.
>
> I admit that carrying the group's recommendations into effect is not going to be easy from a technical or an organizational standpoint. But I am convinced that the Committee has no alternative. We have been criticized with some cogency by various members of the Congress, who have said our present method of writing a directive is unsatisfactory. We have been similarly criticized by nearly every other person addressing himself to this subject in the Banking and Currency Subcommittee hearings. Of equal importance, we in this Committee at one time or another have nearly all expressed ourselves of varying degrees of dissatisfaction with the qualitative language in our instructions. I think, therefore, that we have no choice other than to devote our best efforts and minds to instructing the Manager in clearly defined terms--in my view, quantitative terms.

In preparing for this meeting, I have re-read and studied every word of the discussion of this subject at our July 28th meeting. Going through the minutes I found--and I hope that I am not offending anyone by omitting a point he has made--that the chief objections to the type of directive recommended were these:

The first is that the state of the arts is not deemed sufficiently advanced for this Committee to determine quantitative targets. No one who has studied the economists' conflicting statements and testimony before the House Banking and Currency Subcommittee can help but agree that our knowledge of monetary processes falls far short of perfection. But again, I ask, what choice is there? Eliot Swan wisely called our attention to that point in the report, which reads: "However deficient the state of the art, the Committee must, and now does, make judgments of the sort that would be required under the proposal."

Does anyone here really think that no matter how good a group of economists he had on his staff, or how prescient the help he can get outside his shop, he will soon find "the answer" to questions of monetary theory? Of course not. But the essential and unavoidable point, as Eliot Swan has noted, is that those judgments are already being made. If we are fearful in expressing them as a Committee, then the Manager, whose actions must and do result in reserve numbers, has to make this decision for us. In my opinion, that is an inevitable and unavoidable conclusion. But if the Manager must make decisions regarding reserve numbers it may fairly be asked: have we not delegated, vested, or abdicated--choose the word you prefer--our responsibility? Is this something we are permitted in contemplation of law to do? Is it fair to the Manager, or to the Agent Bank? I, for one, believe not.

Let me say a word about qualitative terms. There is undoubtedly a reality to them. Such words as love, beauty, grace: all of them have meaning, even as the words tone and feel of the market have meaning; but though they are real, they are intuitive. They are in the eyes of the beholder. They represent an area of intuition that simply cannot be exercised by a Committee such as this. When we use similar qualitative terms, directly or by implication, in our instructions to the Manager, seeking thereby to avoid coming to grips with a definitive and quantitative instruction, we make, in my opinion, an abject public confession that we have avoided our responsibility.

In any event, we are now much worried about linkages between reserve figures and other aspects of the monetary and economic scene. I, for one, doubt that we shall ever

find linkages that are always and utterly true. I have this doubt for the reason that, in my view at least, mankind is not a mechanism always making an automatic, reflexive, and deterministic response to a given monetary stimulus. Man has free choice. Men are often capable of their own indeterminate and, alas, irrational responses. However, if we fear quantitative instructions to the Manager because linkages are not determinate, then I express the doubt that there exists now a better determination of linkages with qualitative terms, such as tone and feel. If it be affirmed that qualitative terms are wise and quantitative terms unwise, because of indefinite linkages, then those affirming this view should accept the burden of demonstrating that there is a better linkage between our objectives and, say, the tone and feel of the market. Moreover, if the Committee does adopt a quantitative, measurable reserve objective, then, as Eliot Swan and others have suggested, I believe the Committee will certainly set about the business of gaining an improved, even though ultimately imperfect, understanding of monetary processes.

The second major objection raised against the Ellis-Mitchell-Swan proposal is that this would mean delegating judgments to staff. I have some sympathy for this point of view. The distilled descriptions now on a trial-run basis must be drafted before the Committee meetings, at a time when the interpretation and emphasis the Committee will place on the reported facts are still an unknown quantity. Furthermore, I do not believe that this material has a place in a directive since the Manager cannot control employment, the price level, and other general objectives alluded to, albeit it does have a place in the policy record.

Of far more fundamental importance, however, is the clear recognition that a group such as this needs to lean on its highly competent staff. The confidence we have reposed in our staff is not only evidenced by the information and evaluations we obtain from it, but is made clear by the presence of these advisers at our deliberations. Whether we like to admit it or not, few of us, when we are seated in a large group around this table, can draft a technically perfect directive, either qualitative or quantitative. We must by necessity rely on the staff for drafting alternative types of directives, among which the Committee can choose and which it should feel free to modify after full discussion among Committee members. Let me further say that under present procedures we rely very heavily, indeed, on technical judgments of one staff member--the Account Manager.

The third objection raised against the new type directive is that the variables are likely to fall outside the target and that such deviations could be misunderstood and criticized.

On this point, I for one have always believed that the Manager must have a target range rather than a single-figure target. If he finds it impossible to operate within this target range or, because of unforeseen events, he believes that doing so would defeat the Committee's more fundamental purposes, then we have well-developed means of communication available to deal with this problem.

I add that in my judgment a quantitative type of directive would not at all demean or degrade the Manager's job. His sense of perception of the nature of underlying money market conditions would still be invaluable. There would be remaining with him the use of his judgment within the context of the target range set by the Committee. He would have added the monumental responsibility of advising the Committee of his views of an appropriate quantitative target and target range.

In short, while I may have some reservations about some of the details of the Ellis-Mitchell-Swan proposal, I doubt that the reservations are important. The important point, I think, is that the proposals represent a giant step forward on a problem to which we may never find a perfect solution with which everyone can entirely agree. The overriding and paramount consideration, I feel sure, is that we must get greater clarity into our directives.

I do not mean to be dramatic in the slightest. But if we fail in clarity, then I think the very existence of this Committee is at stake.

Mr. Bryan added that one of the problems with the present directive was well illustrated by today's discussion of whether a reference to the auto wage settlements should be included. Instead of focusing on instructions to the Manager, the discussion turned on the desirability of trying to convey something of the news of the day in an elliptical phrase that would be difficult for anyone to interpret. He was sympathetic with the proposal to refer to the wage settlements, but he also was concerned with various other problems that might as readily be mentioned. As he had indicated, Mr. Bryan said, he believed that statements on such matters should be included in the policy record entry and not in the directive.

Mr. Balderston said he had no comment to make on the directive proposals, other than that he favored continued experimentation in the area.

The Chairman then invited Messrs. Mitchell, Ellis, and Swan to comment on the discussion to this point. Mr. Mitchell said that he and his two colleagues, with the assistance of the staff, had reviewed the criticisms that had been offered of their proposals at the July 28 meeting, and had prepared a rather lengthy memorandum of comment. In this memorandum, which would be submitted to the Committee at the close of today's meeting, the criticisms were considered in three groups, which would be discussed in turn. Mr. Ellis would comment on the first group of criticisms, relating to the proposal as a whole, after which Mr. Swan would discuss criticisms specific to the proposed elements 1 and 2, and he (Mr. Mitchell) would consider criticisms specific to elements 3 and 4.

Mr. Ellis said that five general criticisms of the proposals had been sorted out from the July 28 discussion. The first was that the proposal offered no advantages to the formulation of monetary policy. Essentially, Mr. Ellis said, the Committee's task at each meeting was to reach agreement on three questions: (a) the nature and interpretation of economic and financial developments, (b) the policy objectives to be pursued in light of developments, and (c) the instructions to be issued to the Desk for the next three weeks in light of policy objectives. This was not an easy task, Mr. Ellis said. The authors of the proposal

were convinced that there would be real gains for policy if the Committee was able to deliberate on language dealing specifically and in logically structured fashion with the three essential questions facing the Committee at each meeting, proceeding from developments to policy to instructions. This process would make any weaknesses or inconsistencies in analysis more apparent and hence more subject to remedy. By this device, the Committee would consider language that was sufficiently clear and detailed to cover the questions at issue adequately. It was always possible to get nominal agreement by using elliptical language, but meaningful agreement could not be achieved in this way.

The second general criticism was that the proposal would impose an undue burden on the Committee and staff. The authors would note that it was the function of the staff to provide information and technical assistance to the Committee in reaching conclusions on the three essential questions. To ask the staff to prepare draft materials for a directive of the proposed type was, in effect, to ask it to supplement all of the detailed facts, interpretations, and judgments it now provided to the Committee with a formal synthesis organized in terms of these questions. It was clear that the proposal was complex, but that was only because the Committee's job was complex. The Committee had an obligation to do its job as well as it could, and an interest--particularly because of the complexity of its task--in doing it as efficiently as possible.

It also had been suggested, Mr. Ellis noted, that because the Committee was unable to edit a long and complicated document around the table, there would be a tendency to adopt language proposed by the staff without substantive change, and this would amount to an undesirable shift of responsibility to the staff. Mr. Ellis submitted that the Committee long had recognized the need for staff assistance, and that the proposal called for assistance of a wholly conventional type. He believed it was safe to assume that the Committee would not abdicate its responsibility under the proposed procedure. In fact, with the draft directive making explicit the analytical judgments and expected results, the Committee would find it easier to recognize and alter any expressions that were at odds with its wishes. This would represent a greater degree of Committee control than under the present directive.

Some had suggested that the proposal was premature, Mr. Ellis said, and that more research was needed before it would be practical. The authors agreed that more intensive research was essential. At the same time, the Committee must make policy decisions now. In their judgment, the Committee was not making the best decisions of which it was capable because it often did not come to grips with either the known or unknown consequences of its decisions, and because it did not make decisions on policy and instructions in clear, complete, and consistent terms. Because of lack of knowledge of linkages and market psychology future decisions might not always be good, but they would be better if the Committee made maximum use of what was known.

Finally, Mr. Ellis observed, it had been said that there were dangers in explicating the Committee's analysis in the manner proposed; in effect, the Committee would lose the opportunity "to be right for the wrong reasons." Surely, he said, as a public body the Committee should not endeavor to cover up the areas in which it was uncertain by silence. Moreover, some serious criticisms to which the Committee now was exposed would be overcome--that the directives were not intelligible to the informed observer, and that they did not give clear and consistent instructions to the Manager. Also, much present criticism was not constructive simply because the Committee had not made clear how it formulated the problems facing it and how it reasoned in arriving at conclusions. The more clearly the Committee exposed its thinking the more likely that criticism would be helpful.

Mr. Ellis added that there seemed to be some impatience with the difficulties of selecting words and phrases to express the Committee's intentions. In the final analysis, however, that was the only way in which issues were really pinned down and resolved. As Mr. Bopp had said in a letter last May, "There is no more important way in which we can spend our time than in defining our objectives more sharply and stating our views more precisely."

Mr. Swan said the basic objection to the proposed elements 1 and 2 had been that such material was more appropriately included in the policy record, prepared after the meeting, than in the directive. However, the primary purpose of elements 1 and 2 was to contribute to

the development, at the meeting, of a clearer and more consistent assessment by the Committee--acting as a Committee and not as individuals--of economic and financial developments. The Committee already was making such an assessment in the first paragraph of its present directive. But it faced problems under the present format of having to use elliptical language, which were illustrated by today's discussion on the directive for this meeting. The proposal for elements 1 and 2 represented an effort to make the Committee's assessment of developments clearer by preparing an expanded and more analytical statement.

It was not essential that this assessment be considered part of the directive, Mr. Swan observed, and it could be made separately if there were objections to including it in the directive. However, the authors did believe it important for the Committee to consider and formally adopt language assessing significant developments, whether it chose to include this language in the directive or to keep it separate, describing it, say, as the Committee's "consensus on economic and financial conditions."

While these elements might serve as a substitute for the first part of the present policy record entry, Mr. Swan said, the entry could not serve as a substitute for them because it was prepared after the fact and not in the course of the meeting. The discussion this morning on a possible reference to the auto wage settlements illustrated the point. Some members might feel that this discussion had been a waste of time, but he would not agree. He thought it had served a useful

purpose, and he was happy that Mr. Hayes had brought the matter up even though the final decision had been to omit the suggested reference. He did not consider questions of wording unimportant, and he would not shrink from such discussions.

A final point, Mr. Swan said, was that the policy record was a Board rather than a Committee document under the terms of the Federal Reserve Act. Although members were asked to comment on drafts of the entries, final decisions on the language of the record were not up to the Committee. This was another, although perhaps less important, reason why the policy record entry was not a substitute for elements 1 and 2.

Mr. Mitchell, referring to the discussion of the auto wage settlements, noted that a whole paragraph had been devoted to this subject in the "trial" directive prepared for today's meeting which, he thought, everyone would agree was an excellent statement. He then remarked that he wanted to say a word about what he considered to be the substantative issues faced in preparing the proposals for elements 3 and 4. These could be summarized in terms of the problems of specification, identification, linkages, and quantification.

By specification, Mr. Mitchell said, he meant naming the relevant variables that should condition Committee actions at any given time and that would show the results of those actions. By identification he meant the distinction between independent and dependent variables. The classic problem of this type for the Committee was whether the economy caused the money supply to rise or whether the System, by increasing

the money supply, caused economic activity to rise. Some analysts were sure that the direction of influence was from the money supply to activity, but others believed that under certain circumstances changes in the economy were responsible for changes in the money supply. Such questions were not confined to this case; they arose in many connections and posed difficult problems that the Committee could not ignore.

By linkages Mr. Mitchell meant the channels through which monetary action was transmitted to money and credit market conditions and thence to final spending, and the time lags involved. The Committee did not know enough about these linkages, but it was desirable to create a framework within which what was known could be used fully. By quantification he meant the ability to measure the dosages of monetary action and the quantitative effects of those dosages on the dependent variables the Committee sought to affect.

Obviously, Mr. Mitchell said, there was a great deal to be learned before the Committee could use monetary tools with precision and with confidence in predicted effects. But in his opinion the Committee could never achieve these goals if it did not start using what it had, and concentrating its efforts on extending and improving whatever beginning it was able to make. In trying to do so, the Committee would stimulate a great deal of productive effort on the part of its staff. The authors thought the Committee and the staff could make significant progress on all of these fronts, and would do so if a systematic start was made with the four-part directive that had been suggested.

Mr. Mitchell said he would like to emphasize that the proposed directive had been drafted specifically to avoid a commitment to any particular theory of monetary causation. Both the views of those who felt the impact of policy ran from reserves to the money supply to economic activity, and the views of those who felt it ran from reserves to bank credit to credit conditions to economic activity, were accommodated under the proposed format. Whatever one's analytical preference, there could be no argument with the proposition that the System's policy was effectuated by changes in the reserves made available to the banking system. Such changes influenced both the money supply and the banking system's contributions to total credit flows. The common element in both theoretical structures was bank reserves, and this was the reason that element 3 contained a statement of the policy intent of the Committee in terms of reserves rather than of either the money supply or bank credit.

In the very short run, Mr. Mitchell continued, the System's own participation in financial markets could be a critical element in the supply and demand for specific financial instruments and, of course, expectational effects engendered by System operations had an influence in all credit markets. But the longer-lasting impact of policy was through changes in bank reserves resulting from open market operations, and the ways in which the banking system made use of them.

Neither was the System committed analytically by the specification, in element 3, of growth in reserves behind private demand deposits, Mr. Mitchell said. All that the proposed directive asked of those who

preferred a money supply line of causation was that they be willing to specify the desired rate of expansion in each category of bank deposits and of currency. This was set out clearly in the "trial" directives. For those who preferred analytically the asset side of the ledger, the sum of the reserve growth specified for each type of bank liability determined the growth in total bank credit, enabling proponents of this point of view to adjust or compensate for those changes in bank credit which reflected diversions of credit flows from other instruments into time and savings deposits at commercial banks, thereby focusing on the expansion of bank credit attributable primarily to expansionary or contractive monetary policy.

Mr. Mitchell remarked that the Committee could not avoid the fact that reserves were related by law to deposits rather than to some asset or group of assets, and that net reserve availability therefore was affected by changes in the Treasury balance, shifts of funds between time deposits and other liquid claims, and the absorption or release of reserves by the currency component of the money supply. The purpose, and advantage, of the approach recommended for element 3 was that it provided for the systematic analysis of the behavior of these various aspects of reserve utilization.

Finally, Mr. Mitchell said, he would not want to give the impression that this proposal provided an easier way to operate or that it would sprout, grow, and flourish in the span of a few meetings. More than anything else it was put forth as a framework for accommodating the use of better intelligence and more advanced analytical techniques

and a clearer understanding of linkages between monetary action and the real economy.

Chairman Martin said he though Messrs. Ellis, Mitchell, and Swan had done a splendid job of setting forth the basic problems that the Committee faced in formulating monetary policy. They also had indicated an area in which the Committee had received a great deal of criticism from the outside--criticism to the effect that it did not make clear what its objectives and purposes were, and what it intended to achieve. He thought Mr. Bopp had been right when he used the word "experimental"; in the Chairman's view anything the Committee might do in this area had to be experimental. Such an experiment, far from making the work of the Committee and staff easier, would make it harder.

Chairman Martin said that he had seen an early draft of the memorandum commenting on criticisms of the proposal that would be distributed today. On reading it, he had been impressed by the fact that on some occasions in the past he had not thought through all of the implications of a possible course of action because of the difficulty of the problem. And at times he had tended to feel that it was easier not to engage in debates on the specific words to be used in the directive. But he thought that all members should make a sincere effort to grapple with these problems before concluding that the Committee could not improve the formulation of its directives which, after publication, would provide the basis for evaluations of the policy decisions made.

Chairman Martin then called for distribution of the memorandum of comment on criticisms of the proposal, bearing today's date. He suggested that the discussion be continued at the meeting of October 20, on a topic-by-topic basis rather than in a go-around. It might be found desirable to carry that meeting into the afternoon, but because this was not certain he did not think it was necessary at this time definitely to schedule an afternoon session.

No objections were made to the Chairman's suggestions.

Thereupon the meeting adjourned.