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, July 30, 1957, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Allen
Mr. Balderston
Mr. Bryan
Mr. Leedy
Mr. Mills
Mr. Shepardson
Mr. Vardaman
Mr. Williams

Messrs. Fulton, Irons, Leach, and Mangels, Alternate Members of the Federal Open Market Committee

Messrs. Erickson, Johns, and Deming, Presidents of the Federal Reserve Banks of Boston, St. Louis, and Minneapolis, respectively

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Atkinson, Marget, Roelse, and Tow, Associate Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Carpenter, Secretary, Board of Governors
Mr. Kenyon, Assistant Secretary, Board of Governors
Mr. Noyes, Adviser, Division of Research and Statistics, Board of Governors
Mr. Koch, Assistant Director, Division of Research and Statistics
Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Gaines, Manager, Securities Department, Federal Reserve Bank of New York

Messrs. Hostetler, Daane, Abbott, and Rice, Vice Presidents of the Federal Reserve Banks of Cleveland, Richmond, St. Louis, and Dallas, respectively; Messrs. Holland and Einzig, Assistant Vice Presidents, Federal Reserve

Banks of Chicago and San Francisco, respectively; Mr. Willis, Economic Adviser, Federal Reserve Bank of Boston; Mr. Anderson, Financial Economist, Federal Reserve Bank of Philadelphia; and Mr. Hellweg, Economist, Federal Reserve Bank of Minneapolis

Chairman Martin extended an invitation to all those in attendance at this meeting to remain for luncheon in the Board's dining rooms with Mr. Robert B. Anderson, who was sworn in yesterday as Secretary of the Treasury to succeed Mr. Humphrey.

The Chairman then noted the absence on vacation of Mr. Sherman, Assistant Secretary of the Committee, and suggested that Mr. Kenyon be authorized to perform for this meeting the services customarily performed by Mr. Sherman in connection with the preparation of the minutes. There being no objection, it was understood that Mr. Kenyon would serve in the capacity mentioned.

Before this meeting there had been distributed to the members of the Committee a report prepared at the Federal Reserve Bank of New York covering open market operations during the period July 9, 1957, through July 24, 1957, as well as a supplementary report covering commitments executed July 25 through July 29, 1957. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Mr. Rouse reported that developments during the period since the last meeting had been dominated by the large Treasury financing and by perverse net borrowed reserve figures. In the first statement week, the projections for net borrowed reserves underestimated the actual level, with

the result that purchases of bills were necessary to maintain an even keel. Subsequently, the projections overestimated net borrowed reserves so that, despite sales of bills from the System Account, net borrowed reserves have tended to be relatively low. In spite of the inaccuracy of the projections, however, Mr. Rouse said that the situation has worked out well. Although net borrowed reserves have been low, bill rates have risen in competition with the rate available on the new 3-5/8 per cent certificates. The average rate in yesterday's auction of bills was 3.36 per cent against 3.17 per cent a week earlier.

Mr. Rouse went on to say that the response to the Treasury offering initially was good. But by late Monday morning, several announcements of new corporate financing plans and syndicate breakups created an air of discouragement in the market. Also, the market letters that morning called attention to the possibility of increases in the discount rate and the prime rate. These influences put a damper on the financing through Tuesday afternoon, as prices of outstanding Government issues adjusted to the terms of the new offering. In spite of the uncertainty at times during the exchange, however, Mr. Rouse noted that the result was satisfactory, with attrition of only $1.1 billion.

Turning to a review of developments in the immediate future, Mr. Rouse said that $276 million of System repurchase agreements will run off on Thursday, August 1, and principally as a result of this withdrawal of funds net borrowed reserves will climb to a $600-700 million range. It is anticipated that net borrowed reserves will

then remain in this range for two weeks, before dipping at the time of the mid-August float expansion. The major problem immediately ahead is again related to Treasury financing. While the attrition on the August maturities was only slightly more than $700 million, the Treasury will still have a narrow squeeze getting through the first ten days or so of August. If they do not sell marketable securities before that time, it may prove necessary for them to run down their balances at the Reserve Banks temporarily, in which case sales from the System Account could be used to offset the release of funds.

At the conclusion of Mr. Rouse's report, Mr. Mills called attention to the sharp increase in net borrowed reserves on Thursday, as the System repurchase agreements mature, and asked if the projected change might not be too abrupt. Mr. Rouse replied that there may be a problem at that time, since dealers will have to find financing for new securities they have not yet sold as well as for the unsold portion of the $400 million of new bills the dealers were awarded in yesterday's auction. If the pressure on the money market from this source should threaten to become too intense, it might prove necessary for the System to grant some repurchase agreements.

Mr. Mills then commented that if this were to prove necessary, it would delay the reinstitution of the degree of reserve pressure that had been maintained prior to the Treasury operations. With respect to the lower net borrowed reserves over the past several days, Mr. Mills

asked if there had been any tendency in the market to view these reserve figures as suggesting a shift in System policy. Mr. Rouse replied that he had heard no comments of this sort, and pointed out that the fact bill rates have risen rapidly, to a point close to 3.40 per cent, would indicate that the market has not really been easy.

Returning to the discussion of Treasury financing, Mr. Leach asked what the Treasury's financing schedule will be after they get through the first half of August. Mr. Rouse responded that the schedule is very difficult. The debt ceiling will permit the Treasury to borrow only about $2 billion in late August or early September, which would mean that they would have to be back in the market in late September or early October, when the debt ceiling again will probably prevent them from borrowing more than about $2 billion. This sum would scarcely carry them through October, and an additional amount would have to be borrowed whenever the debt ceiling permitted. Because of the debt limit, the Treasury will have to conduct its cash financing in small pieces, and the New York Bank estimates--which Mr. Rouse understood to be quite close to the Board staff's estimates--show that the Treasury will have to have an increase in the debt limit to get through the year unless it can be avoided by a reduction in expenditure and the use of enlarged agency financing--Fannie Mae mortgage liquidation notes, for example.

Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period July 9 through July 29, 1957, were approved, ratified, and confirmed.

Chairman Martin called upon Mr. Noyes for a statement on the economic situation, supplementary to the information contained in the staff memorandum distributed under date of July 26, 1957. Mr. Noyes' statement was as follows:

> In glancing over the notes for previous reviews of the economic outlook this year, I observe that, with justice and commendable caution, my colleagues have referred to the economic situation as "mixed." Developments in the economy might still be described as mixed--but the mixture seems to be growing richer as the year progresses.
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> Industrial production was steady at 143 in June and indications are that it will hold this level in July despite the work stoppage in the cement industry and some sizable cuts in defense contracts.
>
> Prices are up--to new highs--both at wholesale and retail, and there is every indication that they will increase further in July.
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> Average hourly earnings increased by one per cent in May and by the same amount again in June. Scheduled wage rate increases both in existing and newly negotiated contracts seem certain to push the hourly average up further in July and August.
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> Revised data indicate that we have enjoyed a slightly larger gross national product than we thought at the time in recent years. The rate for the second quarter of this year is now estimated at $433.5 billion--up about one per cent from the first quarter and 5.5 per cent from a year ago. This is somewhat more than the experts anticipated and they hasten to remind us that a large part of the increase reflects rising prices and inventory accumulation in anticipation of further rises--hardly a sound basis for economic growth.
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> Over all, construction is strong and despite Mr. Leavitt's protestations to the President that it is a depressed industry, housing starts have held close to the million unit annual rate. It is interesting, but not reassuring, that residential building costs have again turned upward, after almost a year of relative stability.
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> Automobiles haven't moved quite so well in recent weeks as they did in June, but the increased scheduling by major manufacturers for the third quarter indicates continued confidence.
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> In the first three weeks of July, department stores enjoyed unusually favorable sales for this time of year and, if they continue at this rate for the remainder of the month, they

will carry the Board's index to 133 per cent of the 1947-49 average--well above the level of other recent months.

This month four European central banks have increased their discount rates and reports indicate that inflationary pressures persist in Asia, South America, and other parts of the world as well.

Chairman Martin next called upon Mr. Thomas for a review of recent credit and financial developments, and Mr. Thomas presented the following statement:

During July there was some moderation of tightness in money and securities markets. The principal developments of the period were the continuation of a relatively large volume of new corporate security issues, the completion of a massive Treasury refunding operation, and substantial reduction in bank loans and investments following a sharp increase in June. Money rates and bond yields declined from the peak levels reached at the end of June, but continued firm and showed some rising tendency toward the end of the period. The tone of markets throughout the world continues to reflect an inflationary psychology.

Completion of Treasury refunding for August and October in one large operation relieves the money market of an overhanging threat. The terms of the financing were more realistic with respect to the current and possible future state of the money market than had been the case in some time. The results can be considered as satisfying with respect both to the moderate size of the attrition and to the distribution of the exchanges among the alternatives. The relatively moderate volume of the exchanges into the December maturity makes the handling of a refunding at that difficult time less worrisome than was feared. The favorable reception to the longest issue serves to diminish some of the liquidity available from the large volume of short-term issues outstanding and also provides an example of a new procedure that might be useful in other financings.

By no means, however, are the problems of Treasury financing all solved for the rest of the year. The Treasury cash balance declined much more in July than had previously been expected. The attrition of $1.1 billion in the refunding operation, although less than on some recent occasions, was nevertheless larger than could be desired as a regular practice. Treasury purchases of securities in the market have also exerted a cash drain. Redemptions of savings bonds have continued large. With existing higher rates on outstanding

marketable issues such redemptions present a constant threat to the Treasury balance.

It appears certain that the Treasury will need to raise $2 billion or more of new money probably as early as the middle of August. Four billion additional will be needed early in October, partly to cover the $1.5 billion tax bill maturing in September. Some of these needs could be met by increasing the regular weekly bill offer by $200 or $300 million each week; others by tax anticipation issues.

Corporate new capital issues in July are likely to aggregate $1 billion, which is more than had been expected. While the calendar of prospective new issues is comparatively light for the first half of August, there will be a substantial volume in the last half of that month and in future months. Issues of State and local governments continue fairly large with plenty more on the waiting list or in the planning stage.

Reception of new issues has been more favorable in recent weeks than earlier. This may be attributed in part to higher offering rates and more limited call provisions on many issues. Outstanding bonds rated AAA are now yielding 4 per cent, after declining some earlier in July. Yields on new issues have also resumed their upward trend. Treasury bond yields have risen further.

Prices of common stocks have declined somewhat in the past two weeks after rising earlier in the month to highest levels in nearly a year. Trading has been moderately active. For several weeks yields on high-grade common stocks at current prices and dividend rates have been below yields in seasoned high-grade bonds for the first time in over 20 years. This relationship reflects the current inflation psychology.

Review of general credit developments for the first half of this year shows that total credit growth in the period, as indicated by preliminary estimates, was in about the same volume as in the first half of last year. The principal forms of private debt showed a smaller increase in the aggregate, but the net reduction in Federal Government debt of $7 billion was less than the nearly $10 billion reduction in the first half of 1956. Mortgage credit expansion was about $2 billion less than in the same period of 1956 and $3 billion less than in 1955. Consumer instalment credit growth at $800 million was moderately less than last year and only a third of the increase shown two years ago. Increases in business and other loans at commercial banks were barely half last year's volume and also less than in 1955. The principal increases were in issues of corporate and municipal securities, which offset only a part of the decreases.

As a net result, the total growth in the major types of credit, other than the United States Government debt, was

somewhat smaller in the first half of this year than in the same period of both 1956 and 1955. The continued rise in interest rates in face of the slackening in private credit growth can probably be attributed to the increased difficulty of liquidating United States Government securities in order to shift to other assets. This change is due in part to the reduction in Treasury debt retirement, but probably also to the lessened availability of idle cash that could be attracted into investment.

Following an exceptionally sharp increase in bank loans during June, there has been a marked decline in July at banks in leading cities. Just as the June expansion was larger than a year ago, the July contraction was also greater. For the two months taken together there were net increases of close to $800 million in each year, using partial figures for the latest week. Banks have disposed of some of the additional Government securities acquired in connection with the new money financing operation at the beginning of July, and for June and July together show a net decrease in their holdings, although a smaller decline than in the same period last year. Total loans and investments for the two months show a small increase compared with a small decrease in the same period last year.

Demand deposits declined sharply in the first week of July but since then have increased fairly substantially, but for the two months of June and July the growth at city banks was a little less than a year ago. The time deposits growth, which was so large earlier this year, has shown a pronounced slackening. United States Government deposits have declined sharply from the peak reached on July 3 but have shown a net increase for the past two months compared with a sharp decline during the same period last year, reflecting primarily a difference in Treasury financing dates. The rate of turnover of demand deposits, outside financial centers, continues to increase at a pace which, though slackened somewhat, is still sufficient to finance continued growth in economic activity with some price rise.

Member bank reserve positions eased considerably in the past two weeks from the tight situation that prevailed at the beginning of the month. Some of the decreased tightness is due to the decline, largely seasonal, in bank credit and the post-holiday return flow of currency, as well as to continuation of a rather large volume of float. System holdings of Government securities, which increased considerably early in July, were subsequently reduced only moderately, as repurchase contracts to finance dealers' acquisitions of rights were not fully offset by outright sales.

Although net borrowed reserves, which declined from over $700 million early in the month to below $200 million last week, may average little over $200 million for this statement week, there will be a sharp increase to well over $600 million on Thursday. During most of the remainder of this year occasional purchases of the securities by the System will be needed to provide for seasonal factors. Most if not all of these might be met through occasional repurchase contracts until near the end of the year.

If strong demands for credit in excess of seasonal needs should lead to an increased volume of member bank borrowing, then discount rate increases would be essential. Since the existing discount rate is now so far out of line with market rates and since steady borrowing by some banks continues in substantial volume, increases to as high as 3-1/2 per cent would be appropriate now, at least in some districts. A question of timing, however, may be raised because of the just completed Treasury refunding operation and the need for cash financing in the immediate future. Although recent credit expansion has been moderate, the world-wide atmosphere of ebullience and the tendency to accept inflation as inevitable seems to call for continued restraint through whatever monetary and fiscal measures may be feasible.

In response to an inquiry by Mr. Balderston regarding the change in the money supply since the first of May, Mr. Thomas said that on a seasonally adjusted basis there was a relatively small decrease in May and that preliminary figures for June indicated a small increase in approximately an offsetting amount. For July it appeared likely that there might be a small decrease but not very much. In general, it appeared that the changes in the money supply had been in accord with the usual seasonal pattern.

Mr. Hayes then made a statement on the business and credit situation and credit policy as set forth below:

It seems to me that there is very little to add to the picture of the economy which has been developed in

recent meetings. Such new data as have become available, while indicative of divergent trends in various areas, do not alter the over-all impression of a sidewise movement and provide no clue as to the direction and intensity of the next major change in economic activity.

Newly revised figures on expenditures for producers durable goods tend to confirm a leveling out of plant expenditures. While inventories rose moderately in the second quarter, this seems to have reflected primarily a disappointing volume of sales rather than a policy of deliberate accumulation. Widespread business optimism with respect to the fourth quarter rests to a considerable extent on hopes of a resurgence of consumer buying. In this connection the latest Michigan Survey suggests a somewhat more cautious attitude than seven months ago. Also there seem to be a growing number of economists who look upon the outlook as "mixed" or "spotty." In spite of the fact that Federal Government expenditures are higher than expected, I think it is fair to say that the economy is at the moment relatively free from broad demand pressures. The price picture, however, continues to be a source of grave concern.

Bank credit developments in the past four weeks do not seem especially significant, except that the Treasury's larger cash requirements this year have prevented as great a decline in bank credit as occurred a year earlier. However, we estimate that the money supply will not show any appreciable net growth for the year as a whole. Velocity continued to rise in the second quarter, contrary to earlier indications. Most banks in New York are still feeling heavy pressure for loans and at the moment are concerned about the CCC cotton financing on August 16 which may amount to $400 million or more for the entire country. The capital markets have been under a renewed severe strain, mainly because of the seemingly unending prospect of heavy new corporate offerings, the volume of which as yet shows no reflection of the leveling tendency of plant expenditures.

Turning to credit policy, I would like to dwell for a few moments on some of the basic considerations which I feel we should bear in mind. It seems clear to me that the application of monetary policy is going through a testing period which is one of the most difficult in the System's history. For over two and a half years we have been following a policy of restraint, and interest rates have risen steadily. In the last month or two, bond yields have risen about as fast as in any previous period of comparable length. In spite of our efforts, prices have shown a disturbing degree of imperviousness to monetary restraint for more than a year. The Treasury, after

showing great reluctance to face the facts of this interest rate rise, has at last accepted these facts and has priced the latest issues realistically. The relative success of the offering should not cause us to overlook the fact that there were moments when the result seemed pretty doubtful, nor that the size of this refunding pointed up the inadequacies of the existing mechanism for underwriting Treasury securities. These inadequacies may become increasingly evident, with additional heavy refundings in prospect over the coming year, as bank and corporate liquidity continues under pressure.

It is hard to measure the degree of public acceptance of Federal Reserve policy. The extent of acceptance seems to me encouragingly broad, but there is constant danger of our policies being made a major political issue, and the high degree of public interest in the subject increases the risk of public revulsion and political attack if our policies should misfire. In other words, I feel that we are in a sufficiently critical phase to warrant very considerable caution. As Governor Balderston aptly put it at the last meeting, the System seems to be climbing a canyon with ever-rising walls.

Now I am quite ready to admit that it is exceedingly frustrating to see prices edging up month after month in spite of our best efforts, and I can see the natural appeal of the argument that what we should do is to tighten credit further and see if that will prove any more effective. However, appealing though this argument is, I think it involves unwarranted risks. In the first place, there is enough uncertainty as to which way the economy is going to move next so that we must give serious thought to the consequences to the System if we are later blamed for recession and substantial unemployment. In the second place, we cannot be at all certain that even greater strains and tighter money and higher interest rates would do the trick. If they did not, we would merely have compounded the Treasury's troubles and intensified political opposition to monetary policy, to no purpose.

It seems to me clear that the prudent course is to continue doing what we have been doing, keeping the banking system under substantial but not overwhelming pressure, preventing any national expansion in bank credit and the money supply, and allowing reduced liquidity to take effect on the economy.

In terms of immediate open market policy, I think we should maintain about the same degree of pressure as we

> have in recent months. If our current projections prove accurate, this may call for a minimum of transactions in the next three weeks. If we should have occasion to make any open market purchases in the third week of August, it might be useful to buy acceptances in amounts somewhat greater than usual in view of their probable availability. I think we would be wise to leave the discount rate unchanged at this time, both to avoid the accusation of having "let down" investors in Treasury securities immediately after completion of the refunding, and because I see no justification in the economic situation for a signal that we believe intensified restraint is in order. The capital markets are already subject to strong upward rate pressure, and an increase in the discount rate would tend to validate the recent rate advances and to set the stage for the next notching up of rates. Conscious System action to generate higher capital market rates would not be consistent with the present general stability in the economy. I do not know whether the prime rate is to be advanced in the near future, but even if it is I think we should not necessarily be forced into action by such a move and we should have in mind that the market tends to look upon a change in the discount rate as generally reflecting a change in the System's policy intentions. No such change seems justified at the present time.

Mr. Johns said that he found himself thoroughly in agreement with all aspects of the statement by Mr. Hayes. He discerned a tendency, even a temptation, to look back a little way and observe the price changes which had occurred almost continuously and to conclude that monetary policy should have been more restrictive. While he was not disposed to argue with that conclusion, he was inclined to feel that the Committee should be cautious about translating such a conclusion into a decision at this time to become significantly more restrictive in order to attempt to repair what might be regarded as oversights or errors in the past. On the basis of his impression of the state of economy--which was about the same as that of Mr. Hayes--

he found it impossible to come to the conclusion that System policy should become significantly "tougher." He made it clear, however, that in making this statement he was referring only to the short run.

At the present time, Mr. Johns said, he was not convinced that the time for a change in the discount rate had arrived. From the record of member banks in the St. Louis District, there seemed to be no reason for an increase in the rate to inhibit borrowing, for it appeared that in all cases the borrowing was for the purpose of effecting short-run adjustment of reserve positions. Therefore, he would not like to be in the forefront of a rate movement. Also, having in mind the recent and prospective Treasury financing operations, he had some doubt whether a rate change should be made within the next three weeks. However, he would not want to look any further ahead than that at this time.

Mr. Bryan reported that in the past three weeks there had been no significant economic developments in the Atlanta District. Employment remained high, at practically the record levels of May, and there appeared to be no summer letdown. The same thing was true when one looked at payrolls. Construction contracts for the first five months of 1957 were substantially above the same period last year, and banks seemed to be tending to make loans at a somewhat faster rate.

With respect to Federal Reserve policy, Mr. Bryan said that he was rather troubled by some of the statements now being made about the sidewise movement in the economy. It was important to his own

thinking that this sidewise movement was occurring in physical terms rather than in value terms, for it is in the latter that inflation is measured. Therefore, he felt it was possible to be misled by putting emphasis on the sidewise movement. He was concerned, of course, about the problem of public understanding and public reaction to System policy, and he recognized that the System had a fundamental obligation not only to follow a correct policy but to make it understood and acceptable. However, he believed that a mistake could easily be made by thinking in terms of policy too much "in political connections," and he felt that the System would be better off in the long run if it simply did straightforwardly those things that needed to be done. Thus, the question on which he would lay greater emphasis was whether a tightening of policy was needed. He could see no essential difference between the situation now and six or three weeks ago. In other words, nothing new had come into the picture that would seem to require more restraint than if the System had acted then. In the circumstances, he was puzzled as to what reasons could be given for tightening now that could not have been advanced previously. Like Messrs. Hayes and Johns, he was concerned about the reaction if the System were to tighten immediately after a Treasury financing operation of such magnitude as the recent one, for he felt that any such action would almost certainly be misinterpreted.

Mr. Williams referred to his statement at the last meeting of the Committee concerning the increase in member bank borrowing

from the Philadelphia Reserve Bank and the decision of the Bank to deal with the problem through firmer administration at the discount window. Since that time, he said, there had been discussions with the two principal borrowing banks, in each case preceded by a request that the bank's representatives be prepared to discuss the period ahead in specific terms, to state their objectives, and to indicate how they were attempting to attain those objectives. At the same time, the Reserve Bank emphasized that it had no intention of trying to manage the institutions. Mr. Williams went on to say that the results were more satisfactory than anything that the Reserve Bank had attempted heretofore. Both banks had analyzed in detail their present situation and prospects, and both had formalized plans for improving their liquidity. While these plans varied in certain respects as between the two banks, it appeared in each case that the plans, if carried out, would result in substantial improvement. The next two months, he said, were critical because there is normally a seasonal runoff, and the Reserve Bank was already thinking in terms of further steps in the event that the member banks did not carry out their plans. He also said that the Reserve Bank was now moving over to discussions with country banks in the district's resort area to see what was in prospect for those banks, for it would not want to see a repetition of past performance. The Reserve Bank recognized the dangers in this type of procedure but was trying to avoid them, and on the whole it believed that this type of action was worth while.

With respect to economic developments in the Third District, Mr. Williams said that there were no clearly discernible trends. Part of the area was experiencing severe drought, but there had been a slight gain in the industrial level and residential construction awards were somewhat above last year. Loans were down a little at banks in the district, while member bank borrowing was heavier than a year ago. Mr. Williams said he had had no discussion with the Bank's Board of Directors regarding the discount rate since the last meeting of the Open Market Committee, and in the meantime he had no recommendations for change in policy.

Mr. Fulton reported that in talking with businessmen and manufacturers he had found a surprisingly high degree of optimism, largely on the basis that the fourth quarter of the year was expected to be very good. The steel business was down somewhat, with the Pittsburgh rate above the national average and the Youngstown-Cleveland-Lorain rates below the average. It was expected, however, that when the automobile industry began its orders for the new models, the operating rate would be higher. There had been a drop in the demand for stainless steel and titanium due to changes in Government orders reflecting increasing emphasis on guided missiles and less on aircraft. Production of automotive parts was holding up fairly well, but those foundries doing job business and making small parts for appliances were not doing well. The appliance industry was in the

doldrums to quite a severe extent, and some appliance manufacturers were reported to be stopping deliveries for the next 30 days. If a general pick-up should not take place in the month of September, there might be a deterioration in the whole psychology of businessmen. However, there was no indication of any postponement of plans because of the cost of money. Many people were saying that they were concerned about inflation, but on the other hand they were adding to the pressure by going ahead with whatever plans they had already formulated. Housing starts had improved, there appeared to be some easing in the availability of mortgage money, and retail sales, while showing no gain as compared with last year, nevertheless were quite high. Member banks were borrowing with no apparent inhibitions, the volume of borrowing in recent weeks being more than twice that of last year. The Reserve Bank had had a number of discussions with them, but the member banks claimed there had been an outflow of deposits from the district--which they expected to get back--and that the demand for loans was very heavy. They expected a further increase in loan totals in the final quarter of the year.

Mr. Fulton expressed the view that in the past couple of weeks the pressure exerted on the banking system through open market operations had been too light, and he was hopeful that it would be possible to get back to a level of approximately $600 million of net borrowed reserves. Something around that level, he felt, would reflect a policy of real firmness and would be so understood. If the prime

rate should be raised, he would favor increasing the discount rate, but he did not think that the Reserve Banks ought to make the change themselves at this time, for such action might mistakenly be regarded as a change in policy. On the other hand, he would be prompt in following any change in the prime rate.

Mr. Shepardson expressed concern about the apparently widespread extent of the feeling that further inflation was inevitable. He recalled that at the last two meetings of the Committee he was very much in favor of moving further in the direction of restraint. At present he did not think that the situation was substantially different. While he was somewhat apprehensive about a change at this time immediately after the Treasury financing, nevertheless he still had a great deal of concern regarding the prevalence of the attitude he had mentioned, and also about the continuing upward price movement. It was his view that there should be more pressure in terms of negative reserves than had been the case recently, and he felt that developing conditions might soon make a change in the discount rate feasible.

Mr. Mills expressed the view that the economic situation, as pictured, would call for a continuing policy of credit restraint, and he gathered that the sentiment of those who had spoken at this meeting was in favor of attempting to regain as rapidly as practicable the degree of restraint that was exerted prior to the Treasury financing. This would appear to mean regaining that degree of restraint at the

same time that an increasing volume of new security offerings would be coming into the market. The pressure on the capital markets, working at the same time as the pressure that would be placed on the reserves of the banking system, would very likely result in an increasing tendency of rates to rise. If that assumption was correct, it followed that a 3 per cent discount rate would very quickly become entirely out of line, and an increase in the rate then would do no more than recognize the existence of a condition that had materialized out of the course of events. These, he believed, were the developments that could be anticipated if the System succeeded in regaining the proper degree of pressure on bank reserves. It might be a mistake, he said, to look at an increase in the discount rate as reflecting a change in the direction of System policy rather than a recognition of the existence of market events that had necessitated a change in the rate. Bearing in mind all of these considerations, it was his feeling that the rate should be raised, very probably to 3-1/2 per cent, before the Treasury's next financing operation and before the seasonal demand for bank credit gained momentum. If the increase were delayed beyond that time, it might well give the impression of a change in System policy rather than a recognition of events that had already occurred. He did not share the feeling that an increase in the near future in the discount rate would be widely regarded as signalling a major change in policy. The discount rate change, if made shortly, would in a very real sense reflect changes in the

interest rate structure of the capital markets rather than a change in the availability of credit for short-term purposes. It seemed to him that the careful analyst would regard a change in the discount rate as a reflection of the cost of credit rather than a change in System policy in the direction of restricting the availability of credit.

Mr. Vardaman said that for the present he was not attempting to go beyond thinking on a "week-to-week" basis. While he agreed with Mr. Bryan's comment about the sidewise movement in the economy being in physical rather than value terms, he did not believe that a change in the discount rate at the present time would have anything other than a potentially disastrous psychological effect. He doubted that it would have any practical effect on the price movement. In general terms, he found himself in full agreement with the views presented by Mr. Hayes. He would make no change in the Open Market Committee's directive at this time and he would move along from week to week, with the understanding that a special meeting of the Committee might have to be called at any time if developments warranted.

Mr. Leach said that the economy of the Fifth District did not show any decisive movement in either direction, current developments in the principal industries reflecting mixed changes presently and in prospect. There were indications of improvement in the textile industry, particularly with respect to hosiery, which had recently increased production following a long slump. The furniture industry

continued to have inventory problems and while bituminous coal production was holding up well, with export shipments the chief factor of strength, declining shipping rates for coal to Europe might foreshadow a future decline in shipments. As to agriculture, reports indicated substantial damage to crops in certain parts of the district resulting from drought conditions. On a daily average basis, borrowing from the Reserve Bank for the months of May, June, and July had remained substantially the same.

With respect to the national situation, Mr. Leach said he was impressed by the manner in which the economy had absorbed many adjustments, including the cut-back in inventory buying which now seemed to have ended. He expected a definite upturn in the fall even though there was little tangible evidence of it at the moment. There was, however, tangible evidence that consumer prices were still going up and that wholesale prices had turned upward again. In the circumstances, it seemed to him that there were at least two positions that one might take at the present time. First, one might take the position that the economy was moving sideways, that the System was doing all that could be expected of monetary policy, and that price increases could not be stopped without causing a serious downturn. On the other hand, one might take the position that the System should tighten further in an effort to lessen the economy's capacity to absorb higher prices. Personally, Mr. Leach said, he would take the latter position, and this meant that he was willing to take whatever

risk was involved in being a little more restrictive. Perhaps it was not practicable to completely stop price increases through monetary policy, but he believed that the System had a responsibility to do all that it could in that direction. With regard to the question of timing, he had thought that it would be inappropriate for the System to become more restrictive just before the Treasury refunding, and he now thought that it would likewise be inappropriate for the System to become more restrictive just after the refunding. Accordingly, he would not recommend an increase in the discount rate today and he would not favor applying any more pressure through open market operations than the System was applying just before the refunding. Perhaps, he said, the situation would take care of itself during the next two or three weeks, and another look could be taken at the picture after that time.

Mr. Leedy stated that there had been no significant changes in the Tenth District in recent weeks. His principal concern was that in the course of the Treasury financing operation the System had lost the tight rein over credit that it had had prior to that time. In making this statement he did not intend to criticize the management of the System Open Market Account for he recognized the great difficulties involved, including the fact that in the period of the financing the management of the account was under severe pressure to avoid developments that might have been disastrous to the refunding operation. Nevertheless, in viewing the operation from a distance he got the

feeling that the results had been contrary to what was intended in adopting the report of the Ad Hoc Subcommittee with respect to operations in the market in connection with Treasury financing. He suggested that aid to the dealers had the effect of accomplishing indirectly what the Committee had resolved in the report not to do directly. The first objective, he thought, should be to regain the degree of restraint that prevailed before the Treasury financing operation. As Mr. Hayes had suggested, the recent experience might raise a serious question as to the adequacy of the existing mechanism for underwriting Treasury issues, and it seemed to him that the difficulty may have been compounded by the rates on repurchase agreements. The rate, Mr. Leedy said, seemed to have lost touch with the market, and as a consequence, it appeared to him that the System was bound to be under great pressure to take care of all the dealers. The System now found itself in a position where it was more difficult to carry out its major responsibility; that is, to hold the tight rein on bank reserves that had been deemed prudent. As to a change in the discount rate, he felt that this was not the appropriate time for such a move. However, as Mr. Mills had said, if the System should regain and maintain the degree of pressure that was intended, it would probably be found necessary to move on the discount rate. Perhaps, in fact, the move was now overdue. At this juncture, however, with the large Treasury operation hardly out of the way, with the problem of cash financing confronting the Treasury, and with the need for

digesting the securities that had been issued in exchange, he did not feel that a change in the discount rate should now be made.

Mr. Allen reported that in the Seventh District optimism characterized the business climate and business activity, over all, continued at a high level. In the four weeks ended July 20, department store sales in the district exceeded those of a year ago, the improvement being a little better than that of the country as a whole. The district's part of the steel industry also was doing a little better than the national figure because Inland Steel had been operating at 100 per cent of capacity right along. With regard to the automotive industry, the projections for the third quarter which he had mentioned at the last two meetings of the Committee were thus far being borne out. The introduction of models in late October and early November was less assured because the usual "bugs" in the production process and the machinery required for production were appearing earlier this year than usual. The expansion in bank loans which had taken place nationally in the past six weeks had shown up strongly in banks in the area. However, due chiefly to the sale of Government securities, the large Chicago banks were now less active users of the discount window. The Detroit banks had been substantial borrowers in recent weeks due to a decline in deposits which seemed to occur each year at about this time, but the last few days had seen some recovery from that situation. Savings deposits continued to expand at banks in the Seventh District, with banks in 45 cities showing a gain in June of

87 cents per $100 of deposit totals compared with 43 cents in June 1956. As to residential real estate, the market in the Chicago area was regarded as weak, with project builders cutting back on new starts and holding the price line by eliminating frills. Recent weeks had seen further tightening in the mortgage market from the standpoint of availability of funds, with the interest rate on conventional mortgages around 5-3/4 to 6 per cent.

Mr. Allen said that to his way of thinking the policy of credit restraint that the System had followed for some time should be resumed. He felt that inflation was still the big problem. Consumer price indexes continued to rise, and of equal importance was the indicated rise in July of the industrial component of the wholesale price index following a marked degree of stability in the first half of 1957. It was his view that the System should use every available weapon in the fight on inflation, if it concluded that the action would be effective, and that certainly the brake on the supply of money and credit should be continued. Personally, he believed that industrial management would continue to grant wage increases without too much argument as long as it was found that all or a large part of the increases could be added to selling prices.

As to the discount rate, Mr. Allen felt that it should be increased, and he subscribed to what Mr. Mills had said. The next meeting of the Chicago directors was scheduled for August 8, and while he was not personally in any great rush, he rather expected that a recommendation for an increase in the rate would be made if the prime rate had

gone up in the meantime. If not, he would probably defer a recommendation for a couple of weeks. He was not prepared to say what the reaction of the directors might be to such a recommendation. In conclusion, Mr. Allen said that he concurred fully in what Mr. Bryan had said with respect to System policy and political considerations. He felt strongly that the System must do what seemed proper irrespective of such considerations.

Mr. Deming said that the Ninth District, like the country as a whole, continued to show some contrasting trends, with the total picture just a shade less strong than a month ago. Nonagricultural activity was being maintained at a high rate, but the early summer expansion had been a little smaller than in former years. In nonagricultural production and employment the district was now lagging slightly behind the nation, while in retail sales and in farm prospects it was a bit above the national picture. Mining and lumber activity was off from last year's level, particularly in western Montana. Farm prospects were better than in 1956, although they were not quite as good now as had been thought earlier. Wheat would be better than a year ago, livestock prices were higher, and farm income prospects were quite good. Residential construction was off substantially, but the price of housing seemed to be strengthening in the Twin Cities, perhaps a seasonal development. Bank loans were showing appreciably more growth than in the comparable period of 1956 and the seasonal upturn in deposits was now stronger than in 1956. While loan growth for

1957 to date was smaller than in 1956, this reflected the rather heavy liquidation of January and February. Since March, the loan expansion this year had been larger than a year ago. In recent weeks borrowing from the Reserve Bank had been smaller, but it was still relatively heavy.

While on their face these developments would seem to argue for no change in policy, Mr. Deming said, he was in agreement with Mr. Bryan's point that the sidewise movement in the economy was in physical terms and he was impressed by the price picture and the strength of credit demand. Assuming that reserves would have to be put into the market, he felt that they should be put in at a higher cost. All in all, he was inclined to feel that action to increase the discount rate to 3-1/2 per cent was indicated before the Treasury had to go into the market again for funds. He would lean to about the same degree of restrictiveness in open market operations as had prevailed, and he would let the banks seek reserves at the discount window at higher rates. The directors of the Minneapolis Bank were scheduled to meet on August 8 and, while he did not know whether there would be any recommendation at that time for a change in the discount rate, his present feeling was in favor of such a recommendation in the absence of interim developments.

Mr. Mangels characterized recent economic changes in the Twelfth District as rather minor, although a few developments of some significance

had occurred. A large aviation plant in the Los Angeles area had let out some 16,000 employees because of a cutback in Government contracts, there had been some strikes, and in southern California banks had indicated some concern about a slowing up in collections. However, the Reserve Bank could find no evidence of a major increase in delinquencies in consumer credit accounts. In the Seattle area a large aircraft firm had cut back on overtime payments involving about 46,000 employees. Department store sales had not changed greatly, although charge account sales had declined somewhat. Bank loans had changed appreciably in only one category, and bank borrowings had dropped off. However, banks in the district were continuing to purchase Federal funds greatly in excess of the amount of their sales.

Mr. Mangels then said that, having listened to the comments at this meeting, he would not be inclined at the moment to change the discount rate. He had sensed recently some change in the thinking of some of the Bank's directors who had heretofore been inclined to maintain the existing rate, and there might be some movement at the next meeting of the directors on August 14 to increase the rate either to 3-1/4 or 3-1/2 per cent. In his opinion, the System should aim toward maintaining net borrowed reserves in the vicinity of $400-$500 million. If a change should be made in the commercial bank prime rate, he thought that action should be taken promptly on the discount rate.

Mr. Irons said that he had noticed no change in the optimistic outlook of businessmen, which continued very strong in the Dallas

District. Neither did there seem to be any change in the feeling on the part of a good many people that there would inevitably continue to be some gradual inflation. Within the past week, he said, two bankers had called him to ask whether he sensed, as they did from their dealings with customers, this feeling regarding the inevitability of further inflation. They had sensed this on the part of would-be borrowers and their reaction to the higher rates of interest that were quoted.

Mr. Irons reported that in general economic conditions in the district continued strong at a high level, the only soft spot being the situation in petroleum where stocks had been increasing. Refining was down a little in the district but not enough to prevent some accumulation of petroleum products. This situation might be due largely to imports and some lessened demand for petroleum products, but within the last three weeks the demand for gasoline had increased appreciably and now appeared to be at a record level. Department store sales had been good and there was a situation of full employment. The chemical and aircraft industries were strong, and agricultural conditions were generally satisfactory in most parts of the district. In the banking field, a very heavy demand for loans was being reported, some bankers saying the demand was as strong as they had ever seen in the past. The bankers maintained they were conscientiously attempting to restrain loan expansion and indicated that the demands were somewhat larger per borrower than had been the case a year ago. Borrowings

from the Reserve Bank were not unusually high, but there had been some signs that business at the discount window could be expected to increase. On top of the high level of loans, bankers were anticipating a strong seasonal demand.

Mr. Irons then expressed the view that the System ought to recapture at least the degree of restraint that had been maintained up to about ten days ago. He realized that there were risks on both sides, but was inclined to think that the risks were greater on the side of not being sufficiently restrictive. He would favor firm restraint on reserve positions. Such a degree of restraint, however, if it could be achieved in the next two or three weeks, would lead to a situation where the discount rate would be even more out of line than at present. No meeting of the Dallas directors was scheduled for August, but if the prime rate were to move he would call a special meeting immediately. He would also call a special meeting if any of the other Reserve Banks were to raise the discount rate. He did not feel that a change in the rate would constitute a "shock treatment" or indicate a change in System policy. In substance, he agreed generally with the views expressed by Mr. Mills.

Mr. Erickson said that economic conditions in the Boston District did not differ materially from those indicated by the national picture. Some things in the district were up, while others were down. Increases in nonmanufacturing activities continue to push New England's nonagricultural employment to new highs but manufacturing

employment was off from last year, due primarily to conditions in the textile industry. The vacation business was very good and construction awards in May were well ahead of 1956. However, such awards during June lagged somewhat behind the previous year. The agricultural situation in the northern part of the district was very good, but in the southern section conditions were poor due to lack of rainfall. In the second quarter activity at the discount window had been well above 1956, but since July 1 the activity had been less, both as to the number of banks, amount of borrowing, and percentage of System total. There continued to be a couple of "problem" cases.

Mr. Erickson favored regaining as rapidly as possible the degree of restraint in System policy that prevailed prior to the Treasury financing. He would not at this time favor an increase in the discount rate, but his view might well have changed by the time of the next Committee meeting. If the prime rate should be moved up, he would be inclined to call a meeting of the Bank's directors to consider increasing the discount rate.

Mr. Balderston expressed agreement with Mr. Bryan that the System must follow the policies that it considered to be right and proper regardless of possible political consequences. This, he said, was the basic reason why the Congress made the System independent in the first instance, and any departure would be in violation of the System's basic mission. However, the question of the right thing to do at the right time was often hard to resolve. At present, he

thought one might tend to be misled by summer doldrums. One matter that concerned him was the current heavy loan demand in the face of the additional demand to be expected in the fall. As Mr. Williams had said, the next two months would be critical in getting continuous discounters straightened out before they came in for more borrowing later in the year. He was also concerned by the fact that wholesale prices had risen 3-1/2 per cent in the last year and by the seeming reluctance of employers to bargain strongly in making their wage contracts. This made him feel that one must look forward to some further rise in consumer prices unless both entrepreneurs and union officials could be induced to change their expectations. The scarcity right now was in savings, and as long as the expectations of businessmen and union leaders continued as at present the pressure on savings would continue to be great and might well rise. The heavy calendar of security issues, both public and private, in the months ahead seemed to indicate that the price of money would remain high for a considerable time.

If the discount rate were raised this summer, Mr. Balderston thought the business community very probably would view the action not as a new signal or an indication of new policy but merely as an indication that the System believed the current rates of interest were likely to remain high for some time in the future. In other words, it would probably be regarded as a recognition of what had

already happened. Consequently, it seemed to him that the time had come for the System to take action as soon as the normal methods of System procedure would permit. The Treasury, he pointed out, was now through with its heavy refunding but it would be in the market for cash more than once before the end of the year. If the System continued to wait for the Treasury to be in the clear and to refrain from acting either just ahead or after a Treasury operation, it might well be that the System would not act at all. He would prefer to see action taken before the Treasury went to the market rather than afterward because he considered that the sounder way to proceed. It was better, he thought, for the market to know definitely what the System's position was.

Mr. Balderston went on to say that he would like to see action on the discount rate in August, with the rate increased to 3-1/2 rather than to 3-1/4 per cent. An increase of 1/2 per cent from the 3 per cent level would be smaller relatively than the same increase from a level of 1-1/2 per cent. Also, if at some time the System had to reverse itself and signal a policy change, it would be in a far better position to act from the 3-1/2 per cent level than from some lower level.

Mr. Vardaman noted that some of those at this meeting had indicated that in the event of an increase in the commercial bank prime rate, they would be inclined to take action immediately to increase the discount rate. He inquired whether this would be

desirable, since he wondered whether it was well to tie action on the discount rate too closely to changes in the prime rate.

Chairman Martin then commented concerning the several statements at this meeting about regaining the degree of restraint that prevailed prior to the recent Treasury financing. He inquired of Mr. Rouse whether he was not correct in assuming that what had developed had been inadvertent in terms of open market policy, rather than conscious.

Mr. Rouse confirmed that the developments had been inadvertent. He said that the management of the account had considered it advisable to assist the dealers in carrying securities, but had attempted to offset repurchase agreements by sales to the extent that this could be done without producing an adverse effect upon the Government securities market. The record, he said, made that clear on both sides. Repurchase agreements had been made against "rights" in spite of the reserve figures, in line with Committee instructions to consider the refunding a critical operation.

Chairman Martin then stated that, if he had interpreted correctly the various statements that had been made at this meeting, it was clearly the consensus that, regardless of what might develop in the course of the next few weeks, there should be no change at this time in policy or in the Committee's directive.

No disagreement was expressed with the Chairman's statement.

Chairman Martin stated that he found himself in agreement with the general approach taken by Governor Mills. He agreed completely

with the view that there should be no change in policy or in the Committee's directive at the moment, but he believed that natural developments would put the discount rate question in quite a different perspective. So far as the outlook was concerned, he subscribed to the thought which had been expressed regarding the necessity for the System to accept certain risks. He did not think one should persuade himself that, in the event of a major downturn in the economy this fall, the degree of criticism would be any different if the discount rate was raised. The so-called "tight money" policy had been aired enough so that in terms of political repercussions it appeared that the System might just as well "relax and enjoy it." The Chairman went on to comment that at times there appeared to be a tendency to talk about the impotency of monetary and credit policy, while at other times there seemed to be a tendency to ascribe more influence and effect to that policy than it really deserved. As for himself, he said, he had more faith in the vitality of the economy and its ability to adjust, and less faith in policy, than some people who were constantly discussing the matter.

Chairman Martin suggested that the Committee should not attempt to correct in one day a situation which had been plaguing it for a number of months. The Treasury no doubt would be coming into the market again for funds and the System must face that situation. With regard to the question raised earlier by Mr. Vardaman, he expressed the opinion that although a decision on the discount rate should not

be wedded automatically to the prime rate, the prime rate was a factor that must be borne in mind in looking at the rate structure. He felt it would be a mistake to think that if the prime rate moved up, action must be taken on the discount rate immediately. At the same time, it appeared that if the rate structure that might be expected to follow a change in the prime rate should emerge there would be little alternative to raising the discount rate unless the System was content to have that rate get even more out of line with the developments in the rate structure. Probably, the discount rate was already lagging too much behind the rate structure, primarily because of the Treasury's financing problems.

In terms of general comment, the Chairman said that he wished to align himself with acceptance of the necessary risk if the rate structure presented a problem to the System in terms of the discount rate. A change in the discount rate might be mentioned in the press in terms of a change in System policy but he felt that the market technicians would clearly understand the circumstances. It must be recognized, of course, that an increase in the discount rate might create certain further difficulties for the System from the standpoint of relations with the Treasury. He then repeated that, as he understood it, no one at this meeting wished to commit himself at this time beyond the feeling that as of today there should be no change in policy and no change in the Committee's directive.

In a concluding remark, Chairman Martin said that as far as

he was concerned personally, he would want to assume the risk of being charged with precipitating a downturn rather than to take any action except one that was believed to be correct in the technical as well as the policy sense.

Mr. Shepardson said that he wished to endorse most emphatically what Chairman Martin had said about facing up to the risk that might be involved in pursuing the course which was believed to be most advisable.

With respect to the reference by Mr. Leedy to the rate on repurchase agreements, Mr. Rouse said that the management of the account had given considerable thought to the advisability of raising the rate. On the one hand, it was recognized that the rate was out of step with the Treasury bill rate. On the other hand, with the possibility of an increase in the discount rate being rumored for the past few months there was a feeling that a change in the rate on repurchase agreements might have been regarded by the market as the forerunner of a move in the discount rate. With regard to repurchase agreements entered into with dealers during the recent Treasury financing to enable them to carry rights without loss, Mr. Rouse said it was felt that this was a warranted facility. If there should be a change in the discount rate, he would hope that the rate on repurchase agreements could be kept more on the flexible side.

Mr. Hayes added to Mr. Rouse's comments by saying that he did not think there had been as much loss in the degree of restraint

during the period of Treasury financing as might have been suggested by the statistics. He had not sensed any feeling of greater ease on the part of the New York banks. Also, Mr. Hayes said that he would heartily endorse Mr. Vardaman's suggestion that the discount rate should not immediately follow the prime rate.

Chairman Martin then repeated that he had assumed there was no intention in the operation of the System Open Market Account during the Treasury financing to deviate from the terms of the Committee's directive, that this had been verified, and that he considered it important to have this on the record.

Thereupon, upon motion duly made and seconded, the Committee voted unanimously to direct the Federal Reserve Bank of New York until otherwise directed by the Committee:

(1) To make such purchases, sales, or exchanges, (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System open market account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to restraining inflationary developments in the interest of sustainable economic growth while recognizing uncertainties in the business outlook, the financial markets, and the international situation, and (c) to the practical administration of the account; provided that the aggregate amount of securities held in the System account (including commitments for the purchase or sale of securities for the account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the

temporary accommodation of the Treasury, shall not be increased or decreased by more than $1 billion;

(2) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate $500 million;

(3) To sell direct to the Treasury from the System account for gold certificates such amounts of Treasury securities maturing within one year as may be necessary from time to time for the accommodation of the Treasury; provided that the total amount of such securities so sold shall not exceed in the aggregate $500 million face amount, and such sales shall be made as nearly as may be practicable at the prices currently quoted in the open market.

Chairman Martin then referred to the memorandum that had been prepared under date of July 3, 1957, and distributed with a letter from Mr. Rouse of the same date, concerning institutional relations between the Federal Reserve Bank of New York, the Board of Governors, and the Treasury. This memorandum contained sections dealing with management of the Treasury's cash balances, transactions in Government securities for Treasury investment accounts, System operations during Treasury financings, other fiscal agency relations between the Treasury and the Securities Department of the Federal Reserve Bank of New York, and Board of Governors' relations with the Treasury. The material had been prepared by the New York Reserve Bank except for the last section and certain accompanying tables which were prepared by the staff of the Board of Governors.

Chairman Martin stated that the memorandum had been put on the agenda for this meeting in the thought that, with the anticipated appointment of a new Under Secretary of the Treasury, the Committee should start exploring these relations actively and that it would be desirable to have some preliminary discussion at this time. However, the anticipated appointment had not yet been made and therefore there did not appear to be quite the same degree of urgency.

Chairman Martin went on to say that Mr. Hayes had pointed out very well that a major question confronting the System related to the underwriting of Treasury issues, and he felt that this was a problem with which the System must come to grips. He then said that with Mr. Riefler's assistance he had prepared under date of July 30, 1957, a memorandum relating to techniques of debt management which would be distributed at this meeting to the members of the Federal Open Market Committee and also to the Presidents not currently serving on the Committee. In this connection, he commented that in the past few months he had noticed increasingly that the Treasury was tending actively to request a resumption on the part of the System of underwriting responsibilities during financing periods, and he said that he had experienced increasing difficulty in discussing this matter with the Treasury. He felt it essential that the Open Market Committee review carefully this very important problem and that all points of view be put on the table for consideration, for he was sure the right answers could be obtained if all concerned expressed

their views freely. It was his feeling that sometimes the discussions tended to be too polite in tone, whereas the meetings of the Open Market Committee are meetings of the System "family" at which all parties should feel free to express themselves fully. He had wanted these documents to be distributed so that all concerned might have the benefit of them and have a chance to be developing their views. As to procedure, he suggested that the material first be the subject of discussion by the Special Committee appointed at the meeting on January 28, 1957, which included, in addition to himself, Messrs. Hayes, Allen, Balderston, Erickson, and Szymczak. Due to vacations, Messrs. Hayes and Szymczak would not be present at the Open Market Committee meeting on August 20, but all of the members of the Special Committee apparently would be available on September 10. Therefore, he would like to have a meeting of the Special Committee on that date and, on the basis of the Special Committee's discussion, to bring the problems concerned before the whole Committee in late September or at least in early October.

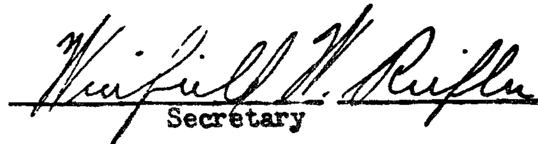
During a discussion of the matter, Mr. Hayes expressed the view that it might not be possible for the Special Committee to make a very full or complete report on the basis of a single meeting on September 10. Chairman Martin indicated that he recognized this possibility and said that this was one reason why he had been anxious to have the pertinent material distributed to all concerned. He commented that events were moving rapidly and that it was impossible to tell what the

Committee might be faced with in the course of the next 30 or 60 days.

At the conclusion of this discussion, it was agreed that the procedure suggested by Chairman Martin would be followed.

It was also agreed that the next meeting of the Committee would be held at 10:00 a.m. on Tuesday, August 20, 1957.

Thereupon the meeting adjourned.



Secretary