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, October 22, 1957, at 10:00 a.m.

PRESENT: Mr. Hayes, Vice Chairman (Presiding)
Mr. Allen
Mr. Balderston
Mr. Bryan
Mr. Leedy
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Williams

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

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

Mr. Thurston, Assistant Secretary
Mr. Sherman, Assistant Secretary
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Atkinson, Bopp, Mitchell, Tow, and Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Carpenter, Secretary, Board of Governors
Mr. Koch, Assistant Director, Division of Research and Statistics, Board of Governors
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. Daane, Hostetler, Rice, and Roosa, Vice Presidents of the Federal Reserve Banks of Richmond, Cleveland, Dallas, and New York, respectively; Mr. Einzig, Assistant Vice President, Federal Reserve Bank of San Francisco; and Mr. Litterer, Business Economist, 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 October 1, 1957, were approved.

Under date of October 1, 1957, there had been sent to each member and alternate member of the Federal Open Market Committee, and to each President not currently a member of the Committee, a report of an audit of the System Open Market Account made by the Division of Examinations of the Board of Governors as at the close of business August 16, 1957, which report had been submitted to the Secretary of the Committee under date of September 18, 1957 in accordance with the action of the Federal Open Market Committee at its meeting on June 21, 1939. Vice Chairman Hayes inquired whether any of the members of the Committee wished to comment on the report.

Without objection, the audit report was noted and accepted.

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 October 1 through October 16, 1957, and a supplementary report covering commitments executed October 17 through October 21, 1957. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Mr. Rouse noted that he had been away during the past two weeks. During that period, the market had had a case of jitters related to the

Russian earth satellite and what it might mean for defense spending in this country, to the Middle East disturbance, to the rapid run-down of prices in the stock market, and to the unexpectedly large offering of FNMA securities. The uncertainty had become rather disturbing on the previous Thursday, and it became necessary to supply some money to the market through open market operations. Government securities had shaken off their jitters in the last few days and prices had been moving higher, but the market was still under pressure. Market sentiment on the business outlook was still generally bearish, Mr. Rouse observed, although many recent earnings reports had been good.

Looking ahead to the problems that might arise in the next few weeks, Mr. Rouse pointed out that both the New York projections and the Board staff's projections expect net borrowed reserves to rise substantially during the next three weeks unless open market operations offset the loss of reserves. Also during this period there would continue to be a strong corporate demand for capital funds, on both debt and equity securities. Good performance of the municipal market in recent weeks had acted to bring out an increased supply of new issues.

Turning to current matters, Mr. Rouse reported that Treasury bills had been auctioned the previous day at an average rate of 3.62 per cent, somewhat below the previous week. FNMA apparently just got by in its offering of $750 million Management and Liquidation notes, with current guessing that allotments might be 45 per cent of subscriptions.

Mr. Rouse then referred to the request received by Chairman Martin from Congressman Patman dated October 7, 1957, that arrangements be made for certain individuals working for Mr. Patman to visit the Federal Reserve Bank of New York in order to study open market operations. Mr. Patman vouched for the integrity and discretion of these individuals and gave assurances that they would make no public statements concerning their visit or otherwise reveal confidences to any unauthorized source. Chairman Martin in turn had assured Mr. Patman in his letter of October 8, 1957 that the New York Bank would be glad to receive these people under the conditions stated.

Mr. Rouse went on to say that after arrangements were agreed upon, two men came to New York and spent three days there, mostly at the Trading Desk. They did not sit in on dealer meetings or listen in on conversations with dealers. However, Mr. Rouse understood that many questions were asked and were answered fully and frankly. He had not had an opportunity for a full report but the principal, a Mr. William Johnson, wrote President Hayes a thank you note which he closed as follows: "Not only were the operations of the Open Market Account explained to us in understandable terms, but all of the questions we raised were, I believe, fully answered excepting a few of a statistical nature which Mr. Roosa kindly consented to answer by mail." Although he had not yet seen these questions, Mr. Rouse said that he understood they were handed to Mr. Roosa as Mr. Johnson was leaving the Bank and that they involved data received from dealers

on a confidential basis. If that proved to be the case the Bank would have difficulty in giving Mr. Johnson the answers in a form which would fully meet his request.

Mr. Rouse then stated that early in 1958 the Account Management planned to begin the next lap of the program of training for emergency purposes that was in effect during 1957 and in which representatives from all Reserve Banks both at the policy level and at the operating level visited the New York Bank for the purpose of studying open market operations. He suggested that each Reserve Bank President and the Board furnish the Secretary of the Committee with a list of persons whom they wished to propose for participation in the training program during 1958 in order that a satisfactory schedule could be worked out.

Responding to a request from Mr. Balderston for a review of the day-to-day problems with float that the Desk had encountered during the previous week, Mr. Rouse said that the period around Columbus Day was always a difficult one for forecasting float. This year, open market operations were conducted on the expectation that float would rise immediately after the holiday. When it did not, the money market turned tighter for a few days in the first half of last week than the Committee had intended. Finally, it became necessary for the System account to buy Treasury bills on Thursday.

Mr. Balderston said that his question was not intended to voice criticism as to operations of the Desk last week. He fully

understood the difficult situation. He raised the question because he thought the Committee as a whole had never faced up to the problem of whether it wished the Desk to proceed on the basis of actual figures that applied to changes already effected or whether it should base operations on the projections, especially when the projections of necessity were uncertain and unreliable.

Mr. Rouse said that he thought further discussion of this question might be helpful. His understanding of the Desk's responsibilities was that operations should depend upon the judgment of the Manager of the Account based not only on the figures but also on the feel of the market. He pointed out that the latest data available to the Desk are two days late. In managing the Account, the actual figures for two days earlier and the projections are used in evaluating the influences that are at work in the market. Sometimes he felt the Desk relied too much on the projections and reserve statistics. He suggested that the most important factor in regulating credit conditions in accordance with Committee policy was the Desk's judgment of the market on a particular day, that is, its judgment as to the nature of the demand and supply influences shaping the market at any particular time.

Mr. Hayes said that he thought this was an interesting point. Mr. Rouse had correctly indicated that many factors should be considered, but there was the question how much weight to give to projections, to past performance, and to other factors. He suggested

that there was a need for each member of the Committee to direct his thoughts to this question.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period October 1 through October 21, 1957, were approved, ratified, and confirmed.

Mr. Hayes said that in addition to the visits to the New York Bank of persons working for Mr. Patman, to which Mr. Rouse had referred, arrangements had been made by Chairman Martin for Senator Wallace Bennett, a member of the Banking and Currency Committee, to come to the Desk tomorrow, October 23, for the purpose of observing operations and asking questions concerning the transactions for the System open market account.

Members of the Board's staff entered the room at this point to assist Messrs. Young and Thomas in the presentation of an economic and credit review, illustrated by chart slides. A copy of the script of the review was sent to each member of the Committee following the meeting.

The review stated that recent developments at home and abroad called for searching re-examination of the economic situation. In this country the latest declines in market values of common stocks and sensitive industrial commodities had been of sufficient magnitude to bring into question continued dominance of inflationary forces. On the other hand, demonstrations of Russian scientific prowess necessitated an intensive review of projected reduction in national security outlays

and of possible new outlays. Abroad, sharp speculative attacks on sterling and some other currencies apparently had been met successfully by strong policies, including an increase in the Bank of England rate to 7 per cent. Foreign influences on the United States economy, to the extent that they are felt through our export trade, had not been expansionary in recent months as they were at the beginning of the year. Monetary policies in most European countries were still determined by the need to maintain external stability as well as internal balance, and the general situation in Europe was still one of strong, though not necessarily rising, demand.

Within the United States, the latest quarterly and monthly figures showed continuation through the third quarter of 1957 of many features prevailing earlier in the year, with production steady at a high level, price movements in wholesale markets mixed but the average up, and consumer prices generally continuing upward. September industrial production was at 144, down a point from August but within the narrow 143 to 146 range prevailing so far this year.

In analyzing the implications of recent business and credit developments for monetary and fiscal policy, it was pointed out that the review showed short-run abatement in inflationary pressures and raised questions about potential declines in important sectors of activity. The economy as a whole showed basic strength but there was uncertainty as to what combination of demands would prevent

recession in activity or, better, make for advance in total output and employment at present price levels. Business sentiment had turned more pessimistic than the current indicator figures, and attitudes of common stock investors appeared to reflect a growing disbelief in the extension of inflationary trends.

While bank credit and the money supply had leveled off in recent months and demand for Federal Reserve credit had shown less than the seasonally projected increase during the past few weeks, developments did not signify that credit policy had been unduly restrictive. Time deposits at commercial banks had increased sharply, and turnover of existing demand deposits had continued to increase. New securities flotations by business corporations and State and local governments had been in record volume and the Treasury deficit had also created a demand for credit. Projections of reserve needs during the remainder of 1957, which indicated a substantial rise in net borrowed reserves in the absence of action by the System, were based on the assumption of a more than seasonal increase in deposits for the rest of the year in order to show no decline in deposits for the year as a whole. These projections indicated an increase in reserve needs of close to a billion dollars between the date of this meeting and the last week of December, most of which would come during December.

It would seem appropriate for the System to meet seasonal reserve requirements freely, the review suggested, and if such

requirements did not develop as much as would normally be expected their absence should be allowed to be reflected in some easing of the reserve positions of member banks. Thus, an immediate target of net borrowed reserves moderately below the average recently maintained would seem appropriate. Should demands exceed usual seasonal requirements, a volume of borrowing by member banks similar to that prevailing recently would be in order.

The review concluded with the statement that developments in business and economic conditions would have to be watched particularly closely in coming weeks in order to make policy adjustments that might be suitable. If current readjustments gather momentum, some further easing in member bank reserve positions and possibly even a decrease in rediscount rates might be appropriate. On the other hand, a recapture of any restraint that might be lost in the immediate future might be required if unexpected economic strength developed--something that had happened a number of times in our dynamic postwar economy.

Mr. Hayes said that, while he was serving as Chairman of this meeting, he would proceed in the customary manner to express at the outset his views on the general situation and on the credit policies that seemed appropriate for the Committee to follow, after which he would revert to the neutral role of a chairman awaiting the emergence of a consensus. Following his initial statement he would call upon all others for their views, beginning with Mr. Bryan.

He then made a statement as follows:

Doubts as to the business outlook have been very considerably strengthened by developments since we met three weeks ago. To some extent these doubts reflect additional evidence of "soft spots" in the economy. But they also have been fed by the persistent weakness of the stock market, the slowdown in defense contract payments, the worsening of the political situation in the Middle East, and above all by concern over our whole national future in the light of the Soviet's successful satellite launching. So far as stock prices are concerned, they are providing the first evidence of the kind of deterioration that feeds on itself. It is possible that the current wave of pessimism is being overdone like the excessive optimism of a few months ago, and may soon give way to a new wave of optimism--but we would be foolish to ignore it as it could become a factor having significant influence on business decisions.

Statistical data for September and early October suggest that the business plateau which we have recognized for many months is beginning to tilt downward. I have in mind especially that personal income declined slightly in September for the first time since the beginning of 1956 (except for one month affected by the steel strike); that corporate profits figures for the second quarter turned out less favorably than expected and were below those of the first quarter; that retail sales, which many economists have been stressing as the strongest element in the economy, receded last month to the June level and appear to be doing no better in October; that nonagricultural employment declined in September, erasing the entire gain since May (and while the labor force also declined, there have been threats of serious unemployment among large defense contractors); and that industrial production dropped slightly last month and, in the durable goods area, was below last year's level--with freight carloadings and electric power output also making a relatively weak showing.

Furthermore, the principal price indices suggest that inflationary pressures are a good deal less strong than they have been even in recent months--and of course much less strong than early in the year. Not only wholesale prices as a whole, but also industrial prices were lower in September than in August. Price cuts occurred in areas generally thought to be dominated by so-called "administered" prices. Further weakness in the basic commodity price index brought it to a seven-year low. Perhaps most significant of

all is the likelihood that the consumer price index may show a slight decline for October.

Many analysts look upon private plant and equipment expenditures and Federal expenditures for defense as key influences on the state of business during the coming year. While most surveys confirm the likelihood of a drop in private capital outlays in 1958, they suggest that the drop will be moderate. Private discussions we have had with a number of industrial leaders point to the same conclusion--although there is some risk that the spirit of pessimism already pronounced in the financial markets may spread to business executives in general and cause some sharper downward revision of spending plans. As for defense expenditures, it now seems less likely that the aim of cutting the fiscal-year total to $38 billion will be attained. For the longer term, some expansion seems probable, but for the next few months any such prospect would influence primarily business sentiment and business policies with respect to inventories and manpower, with actual Federal expenditures largely unaffected.

In the credit and capital markets we have seen some confusing and divergent tendencies in the last few weeks. Business loans have continued to run behind last year, but security loans have recently shown a greater increase. The growth in total loans and investments has exceeded that of a year ago, because of sizeable Treasury financing around the end of September. Banks have felt apprehensive about the burden of financing which may fall on them as a result of the slowdown in government payments on defense contracts. It is clear that the Treasury will have to resort to other devices to cope with the debt limit, including agency financing such as the sale of F.N.M.A. notes, and perhaps the sale of free gold. The bond market, after getting some encouragement from signs of reduced inflationary pressures and a leveling of business activity, has received a setback from the Treasury's current and prospective use of large agency issues to get around the debt limit--and also from the continuing pressure of a heavy calendar of prospective issues and from the general loss of confidence caused by Sputnik and its implications for heavier defense needs in the future. A new upward rate adjustment may possibly be in process, which would undermine the rate plateau established by the 4 per cent coupon the Treasury placed on its recent security offerings.

The environment for monetary policy has begun to look quite different from the boom conditions which initially justified the current restrictive policy. During our last two Directors' meeting, various members of our Board have expressed concern that Federal Reserve policy may be perhaps a little too tight to fit present circumstances and that we might be too late in recognizing the need for a change in policy. While they do not feel that it is time as yet to think of a lower discount rate, they are wondering if a somewhat less restrictive policy should be cautiously explored. I am concerned by the tendency for various influences, in combination with restrictive Federal Reserve policy, to drive interest rates higher at a time when a higher rate pattern seems inconsistent with broader and longer-range objectives of credit policy. I think we should not only be careful to avoid any unintended tightness such as we witnessed a week ago, but we might also give serious consideration to a very modest relaxation of our restrictive policy. I am not proposing, as yet, any overt action to signal to the public a major change of policy, but we could appropriately start moving gradually and tentatively in that direction, while being prepared to tighten up again if it develops that we have misread the many signs of reduced inflationary pressures and augmented danger of recession. We should certainly provide reserves willingly through open market operations to meet seasonal needs. We have generally considered reserve requirements for bank underwriting of direct Treasury offerings and CCC financing as falling within this category of seasonal needs, and we would now include also the reserve needs for bank financing of defense contractors and the underwriting of Government agency issues. Because of the unusual uncertainties that have been injected into the always uncertain fall season, principal reliance should be placed upon the atmosphere in the market and public reactions to the stream of events rather than upon net borrowed reserve targets. If a figure for net borrowed reserves is necessary, I would think that $300 million might be used as a rough guide, subject to the major qualification noted above as to the feel of the market.

Whether or not we agree today to a slight lessening of this kind in the intensity of reserve pressure, there is enough stirring to justify some consideration of the steps the System might take, along with open market operations, as part of an orderly relaxation of pressures--if and when we do decide to make some change. Much will

depend, of course, upon whether current or future developments seem to call for gradual, or for decisive, System action. One first step in a gradual approach might well be for the Board of Governors to lower margin requirements. Another, somewhat greater step would be for the Board to reduce reserve requirements in the central reserve cities. Both of these have already been urged by a number of people (not all of them self-serving) as specific remedies for strain at particular pressure points--changes of a structural nature that ought to be made as soon as the peak of general pressure has passed, but which need not signal a turn toward decided ease.

If more decisive action is called for, the Board might lower reserve requirements on a wider front, and the Reserve Banks might initiate reductions in discount rates. If the former, it will be well for the System to reach some consensus as among the various reserve proposals, before we move very far. If the latter, we might be reconsidering again the old question as to whether, or when, a discount rate change may usefully precede or lead changes in market rates.

Returning from this look ahead and concentrating again on the present, in regard to the directive, my only suggestion would be that we might add the word "increased" in front of the word "uncertainties" in the phrase "recognizing uncertainties in the business outlook, the financial markets, and the international situation."

I should close with a word on the discount window. It might be well on this occasion to seek a measure of uniformity among the Reserve Banks in our approach with respect to the requests for special discount privileges that have arisen or may arise from banks extending credit to defense contractors whose payments from the government have been reduced. The policy we propose to adopt in the New York Bank would be to assure borrowing banks that these defense loans would be viewed in the same way as normal seasonal demands for credit, and that reserves will be supplied in the same way and to the same extent to support the deposits arising from them. That is, individual banks might borrow temporarily from the Reserve Bank to provide for the immediate drain on their resources when the loans are made. However, it would be inappropriate for the banks to believe that they will have access to the discount window in a dollar-for-dollar offset to the loans that they make. Their borrowing from the Reserve Bank should be repaid promptly, as they are able to round up, through sale of other assets if necessary, their share of the reserves which the System is supplying to the banks to support the over-all expansion of credit resulting from the stretchout in disbursements by the Defense Department and from all other seasonal needs.

With respect to the last point, Mr. Hayes noted that the Treasury had been talking with some of the members of the Committee about the System's attitude toward the problem of financing defense contracts in the light of recent changes in the practice of making progress payments to defense contractors. He suggested that any member of the Committee or any other Reserve Bank President feel free to comment on this problem. He then called upon Mr. Bryan.

Mr. Bryan said that statistics for the Sixth District did not show an alarming situation or a major change in activity recently. Nonfarm employment had increased, offsetting a slight drop in manufacturing employment. Lumber employment had declined somewhat but textile employment had gone up. Construction contract awards were up and continued stronger than in the nation as a whole. On the financial front, there was apparently some weakness in the demand for loans, Mr. Bryan said. The economy of the Sixth District was still on a very high plateau but, if anything, the tilt was ever so slightly downward as against what seemed a few weeks ago to be an upward tilt.

With respect to credit policy, Mr. Bryan said that he would associate himself almost completely with what Mr. Hayes had said. He doubted seriously if this was the time to take dramatic or overt action with regard to discount rates or reserve requirements. At the same time, in view of the uncertainties in the situation, he would avoid further tightening in the rate structure and, if anything, would favor a moderate easing in the rate structure. With regard to use of net

borrowed reserves as a criterion for operations, Mr. Bryan commented on why, at least at present, such figures might not only not offer a very good criterion for operations but why they might actually lead to operations that would conflict with the Committee's policy. Personally, Mr. Bryan said he would prefer to arrive at an understanding that the Desk pursue a policy of freely supplying reserves to meet seasonal and such other requirements as would hold the bill rate at or close to the discount rate. As for the Committee's directive, while he was not entirely happy with it, he had no suggestion for change although he thought the Committee should consider Mr. Hayes' suggestion.

Mr. Williams presented preliminary data of capital expenditures planned for the Philadelphia metropolitan area which indicated an over-all decrease in 1958 of 4 per cent compared with 1957. He noted that this 4 per cent decline compared with a 5 per cent decrease mentioned in the staff economic review for the nation. Manufacturing activities represented two-thirds of the total of $582 million of indicated 1958 expenditures, Mr. Williams said, and this segment was expected to decline 17 per cent from the current year, while expenditures for railways and public utilities representing a third of the total were expected to increase 24 per cent. Within manufacturing, producers of durables expected to decrease their capital expenditures in 1958 by 8 per cent, while producers of nondurables anticipated a 22 per cent decline.

In commenting on current activities, Mr. Williams said that the over-all picture was one of a high plateau despite the more cautious

psychology. No significant areas showed a resurgence of activity and Mr. Williams did not expect this year's fall upswing to be at all pronounced. As to banking trends, borrowings from district member banks had dropped $51 million in the first three weeks of October this year as compared with a decline of $33 million in the corresponding period a year ago. Borrowings from the Federal Reserve Bank had decreased each week since September 18, although the borrowing level was slightly higher than last year. Within the last week or ten days stretch-out payments on defense loans had begun to bite. Mr. Williams said he would agree that the System should have a policy with respect to defense contracts, and he felt this policy might be related to the seasonal upswing. He felt this should be fairly clear-cut so that the Reserve Banks would know what they were getting into.

With respect to net borrowed reserves, Mr. Williams would lean toward a somewhat higher figure than the $300 million mentioned by Mr. Hayes but he felt that the discretion given to the Manager of the System Account should permit him in any case of doubt to veer on the side of ease. In view of the fact that the Committee was talking about a three-week period, the Manager of the Account should be authorized to play by ear. Mr. Williams would make no change in the discount rate at this time.

Mr. Fulton said that he was substantially in agreement with Mr. Hayes. The steel industry in the Fourth District was not happy, he said,

although it was still operating at a very high level, up to 93 per cent of capacity in some areas. Steel people reported that cancellations were coming in and that consideration was being given to closing down some auxiliary facilities. The decline in scrap prices had affected the industry somewhat in that pig iron had been substituted when scrap was higher, whereas now this was not being done. The uncertainty because of delayed payments on national defense contracts was bringing about liquidation of inventories. Also, some large oil companies were selling pipe to other users rather than have those users go to the mills, and a redistribution of inventories was going on. New orders for steel had fallen off and the automobile industry had been slow to increase its takings. November business did not look as good as October.

With respect to industries other than steel, those dealing with consumer goods reflected rather spotty conditions, Mr. Fulton said. However, he felt there was nothing that a good sales effort would not correct, provided the psychology of businessmen and individuals did not deteriorate further. He reported comments that the present recession was largely triggered by the Government itself, reflecting the tightening of credit and the fighting of inflation. While the Federal Reserve was the only voice to be heard a short time ago, now the cry was general and it was generating a defeatist or cautious attitude on the part of everyone. Unemployment had increased in the Fourth District but all in all activity continued at a high rate. Department store sales were slightly

below last year for the year to date.

As to policy, Mr. Fulton said that it was time for caution on the part of the System and for doing nothing dramatic to change policy. We should show willingness to meet the seasonal requirements fully and probably to inject a little more money into the banking system. Net borrowed reserves between $300 and $400 million would be appropriate, giving the Manager of the System Account considerable latitude to follow the feel of the market. There should be no move in the discount rate at this time and there should be no suggestion of a change in reserve requirements.

Mr. Shepardson said that it seemed to him that we faced at this time a psychological situation as much as anything. Certainly there had been indications of some lessening of pressures in all areas, more so than we had seen in some little time. But the big pressure seemed to Mr. Shepardson to be psychological reaction to such factors as the Russian satellite and the recent movement in the stock market. He thought it important that the System try to maintain as nearly as possible an attitude of calmness; that it not be in any position of indicating that it was fearful that recent developments would go too far. He doubted that anyone knew the defense situation, adding that there were many elements in the situation that seemed to counteract each other. He hoped that more information would become available shortly, but in view of the over-all spirit of tension at this time and of almost unreasoned fear in some places, he felt that the Committee should hold as steady

as possible. He would differ from what he had said at the preceding meeting to the extent that if errors were made in carrying on operations they should now be on the side of ease in order to take care of needs that might occur. This did not mean that the Committee should make any move toward relaxation.

Mr. Robertson said that he agreed almost completely with Mr. Shepardson's remarks. The economy was still at a very high level. The signs varied one way and the other, but he was firmly convinced that the pessimism which seemed to exist throughout the country to some extent but particularly in New York was being overdone. We have to expect a slowdown in the economy from time to time, he said, and if the Federal Reserve was going to do what it had said it wished to do, that is seek a goal of stability of prices, it would have to expect that periods of advance would be followed by periods in which prices would go down.

Mr. Robertson said he was also convinced that the stock market was not an important guide to economic developments. It was a very fickle sort of thing and that market should not be given too much weight by the Committee. This is the very time when the Committee should avoid any sign of a panicky belief or of a panicky feeling. We should not ease the situation in any way. He would agree with Mr. Shepardson that errors, if made, should be on the side of ease rather than tightness. He would not suggest that this was the time for any

tightening, but the Committee should watch carefully and be certain that it was not indicating any feeling that public psychology was going to run away with pessimism.

Mr. Robertson said that he also believed that too much reliance on "feel of the market" as seen in New York could be disastrous in the conduct of operations to carry out Committee policy. He felt that the pressures in New York were much greater and much more difficult to withstand than they were outside New York. Feel of the market could not be disregarded but it should not be given full sway, he said. Therefore, his belief was that the Committee should set a target of net borrowed reserves. He would not be reluctant to have such a target of $350-$400 million but would not wish to see the level drop below that range. As to the Committee's directive, he would be interested in comments about inserting the word "increased" as suggested by Mr. Hayes in clause (b) of the first paragraph, but he felt that such an insertion might be an indication that the Committee was being swayed by a letting up in the pace of advance. If the Committee were the only one that would see the directive that would not matter, but anything in the way of a public disclosure that there was a feeling of uncertainty might be exaggerated out of proportion.

With respect to discount policy, Mr. Robertson would be interested in hearing the views of the Reserve Bank Presidents but he was convinced that the System should take no position to indicate that the Reserve Banks were going to provide the financing for war

industries where there had been a cutback in advance payments by the Government. If this change were taken in stride it could be handled without too much difficulty, he felt, whereas any indications that the System was going to assume a full scale responsibility for this development would be most unfortunate. In sum, his belief was that the System should provide adequate reserves to meet seasonal needs but that it should play its hand "close to the chest" for the next three weeks.

Mr. Mills commented that his middle of the road reasoning on the economic and credit situation and System policy had been put in memorandum form, and he then proceeded to read the following statement:

> Now that a marked upturn in fall business activity has not materialized, the time has come for adapting Federal Reserve System credit policy to an economic situation which indicates that general activity may be falling from its long heralded "high plateau." Although there is no occasion for reversing the System's policy of restraint on the expansion of bank credit, the degree of pressure exerted to limit credit expansion might well be modified through the application of the natural factors working in the economy which presently support the System's policy objectives. A pessimistic tinge to psychological attitudes and the reduced liquidity evident both in banking and business circles are factors which continue to work on the side of automatically enforcing System credit policy and thereby reducing the necessity of applying as heavy mechanical pressures in policy enforcement as would otherwise be the case.
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> Acceptance of this reasoning would contemplate that the System should not attempt to absorb reserves that may be freed through further reduction of loans at central reserve city banks and reserve city banks, but should allow such reserves to find whatever new employment they may be put to by the banks into whose possession they come. For example, it may be desirable for banks to extend credit to finance involuntary inventory accumulations pending their orderly distribution, which would be economically preferable to a restriction of credit that would compel

their forced liquidation. Seemingly, the present level of interest rates as a cost factor should exert a sufficient influence to prevent the use of credit for financing unwise or speculative inventory accumulation.

Credit leeway in the hands of the commercial banks at the present time may also be desirable to originate the syndicate financing of prospective new issues of corporate and public securities during the period that they are redistributed into final investment hands. In this case, the slowing-down in the tempo of the capital investment boom should automatically serve to eliminate the possibility of a too free use of bank credit in this financing area.

A final instance of allowing credit leeway attaches to supplying reserves against commercial bank acquisition on October 29 of the new issue of Federal National Mortgage Association securities. Business conditions being as they are suggest that System policy pressure to enforce an immediate redistribution of the securities from the commercial banks will not be essential in the light of all of the considerations which have been touched upon, and which suggest that the economic factors working toward an expansion of credit are now subsiding to the extent that a counteroffensive on the part of System credit policy to prevent an undue increase in the money supply is no longer as necessary as heretofore.

Continuing, Mr. Mills said that if a target of negative free reserves were to be chosen he would think it should be a range from $300 to $400 million. However, he believed that feel of the market as it reaches the Manager of the System Open Market Account should be the criterion on which the Committee should operate.

Mr. Mills' reasoning was completely in line with that expressed by Mr. Robertson with respect to discount policy regarding financing needs that might originate out of the change in defense program financing methods. Essentially, the Federal Reserve was dealing in the total of reserves and that total of reserves as it makes itself

felt or as the System makes the reserves available through credit policy should flow to the point where the reserves were most needed. This would include the defense program contracts requiring additional bank financing. Mr. Mills said that it would be an error, in his judgment, to attempt to recognize a credit need of this type for special Federal Reserve Bank discount action apart from the general credit needs that would occur and which it was the evident intention of System policy to meet.

Mr. Leach reported additional evidence of weakness in some sectors of the Fifth District economy. Prices of cotton woven goods had recently declined, production was reported to have been curtailed slightly, and future orders at prices satisfactory to the manufacturer were still lacking. Recent industry estimates of bituminous coal consumption indicated some decline in production in the fourth quarter, despite a stronger than expected foreign demand. Furniture manufacturers report that they are gearing production closely to orders to avoid adding further to already heavy inventories. Current estimates of leading crops in the Fifth District show considerable decline from last year, Mr. Leach said, with tobacco down 31 per cent, cotton 31 per cent, peanuts 21 per cent, corn 30 per cent, and wheat 28 per cent.

In looking around for some elements of strength, Mr. Leach said that he observed that Fifth District construction contract awards had increased contraseasonally from July to August. Residential construction contracts were particularly strong. There had been no significant

change in unemployment in the Fifth District during the last two years.

With respect to the national situation, Mr. Leach expressed the view that we were now achieving the objective we have been seeking for a considerable time. It seemed to him that the inflationary pressures had lessened greatly and they might be disappearing. This was evidenced by most indicators other than the consumer price index, which was still going up in August.

Despite the slight declines apparently occurring in some sectors of the economy, Mr. Leach believed that it would be premature to make any appreciable change in the degree of restraint. However, he would certainly resolve doubts on the side of ease. A somewhat lower benchmark for net borrowed reserves should be sufficient to give the desired restraint, he said, suggesting that such a benchmark--and he emphasized the use of the word "benchmark"--might be around $350 million with borrowings from the Federal Reserve Banks around $900 million.

Mr. Leach concluded his remarks by stating that borrowing from the Federal Reserve Bank of Richmond was comparatively low at the present time and he was not expecting any special problems at the discount window. It had not occurred to him that the Bank should give any special consideration to defense contract payments. He would let any such demands come along with other seasonal and current factors and take all such elements into consideration in carrying on open

market operations. These should be conducted to the extent necessary to keep borrowings from the Reserve Banks from going above $900 million.

Mr. Leedy said that signs were lacking in the Tenth District of weakness in the economy comparable to those reported for the Fifth District by Mr. Leach. Trends in several areas of activity were the reverse of those in the nation generally. While construction volume for the first eight months this year was 2 per cent ahead of last year, residential contracts showed an 11 per cent gain over last year. Non-farm employment was at a slightly higher level than last year. In manufacturing employment, there also had been gains, largely in connection with defense activity in areas such as Wichita, Albuquerque, and Denver. In nonmanufacturing, all States of the district excepting one showed improvement over a year ago. Department store sales for the last four weeks had been higher than in the corresponding period a year ago. Business loans, contrary to the trend nationally, had been higher since the middle of this year than in 1956. There had been some reduction in borrowings at the Reserve Bank since the preceding meeting. Agricultural conditions in the Tenth District were exceptionally good. Fall weather had been ideal for maturing of fall crops and for pastures, and the outlook for production next year was excellent.

On policy, Mr. Leedy said he would not wish to be understood as suggesting any change in direction but he would comment on the matter of degree of restraint. With what has been occurring in the securities

market he felt the Committee could not completely close its eyes to business psychology reflected there, although he agreed that the Committee should not be panicked into a course of action that statistics would not justify. The economic presentation this morning made it evident that there was a marked lessening of inflationary pressures, however, and Mr. Leedy expressed the opinion that the Committee should take account of that development in its operations for the immediate period ahead. His feeling would be that the Committee should apply a little less pressure than in the past three-week period. As a matter of fact, there had been a higher level of net borrowed reserves in this period than he had anticipated at the time of the last meeting. Recognizing seasonal needs, Mr. Leedy felt that operations should be quite sensitive and should respond readily to requirements. He would not undertake to pinpoint a level of net borrowed reserves, but on the basis of the projections it would seem evident that unless pressures were to be increased before the next meeting of the Committee it would be necessary to make substantial additions to bank reserves. As far as the Treasury was concerned, Mr. Leedy said he could not distinguish between the Committee's responsibility to the Treasury for its direct financing and indirectly, and he would subscribe to sympathetic treatment of the Treasury's financing needs. He had no thought of any change in the discount rate. He would also oppose any public indication that the System was doing anything radically different than it had been doing recently. As to the directive, he was

somewhat concerned about indefinitely continuing the present wording of clause (b) of paragraph 1. He suggested that the description of inflationary developments which the Committee envisioned at the time the wording was adopted was not now accurately reflected in the existing wording. He was not suggesting a change in wording at this meeting but thought that the Committee might be giving consideration to rephrasing the directive along the lines of making clause (b) read "to restraining the growth of credit (or to maintaining restraint on growth of credit), taking account of the existence of continuing inflationary pressures, (or, taking account of the existence of continuing though lessening inflationary pressures)."

Mr. Leedy also expressed the view that the addition of the word "increased" as suggested by Vice Chairman Hayes might be appropriate. In short, he felt that at this time the Committee could do a little less than it had been doing recently in the way of applying pressure on bank reserves without indicating a change in policy.

Mr. Allen said that the past three weeks had brought further confirmation of the sidewise movement of industrial activity. September saw a slight dip in such general indicators as industrial production, personal income, and employment, but that was largely accounted for by the model shutdowns in the automobile industry. By mid-October, most of the persons laid off during the shutdown period were back at work and total employment in Michigan now was believed to be almost the same as a year ago. Automobile production was estimated at 350,000

units in October, 560,000 in November, and 660,000 in December, a total of 1,570,000 for the fourth quarter--identical with the fourth quarter of 1956. Barring unusual developments, Mr. Allen thought that total was likely to be attained because it would take 600,000 of the new cars to fill the pipelines and only highly disappointing sales would curtail production schedules prior to January. If production schedules for the fourth quarter are attained, total output of cars in calendar 1957 would be 6,250,000, compared with 5,800,000 in 1956.

Mr. Allen then referred to estimates made by the Chicago Bank on the automobile credit outlook. For 1957, automobile installment credit outstanding was expected to increase $1 billion, from $14.5 billion at the beginning of the year to $15.5 billion at its end. For 1958, assuming a 4 per cent price increase and no change in the proportion of credit sales to total, the estimated increases in outstandings were $1.8 billion if the number of new cars sold totaled 6 million; $2.7 billion if new cars sold totaled 6.5 million; and $3.8-4.0 billion if the number of new cars sold totaled 7 million.

Mr. Allen commented that frequently he doubted that monetary policy had all of the important effects that some ascribe to it, but he was encouraged to note that American business firms in 1957 had relied to a greater extent on the capital markets and to a lesser extent on commercial banks. He felt that credit restraint on the commercial banks undoubtedly had helped to bring about this desirable

result. He noted that from January 1 to October 31, estimated new capital issues other than refundings totaled $10.6 billion, or 30 per cent more than last year. Business loans at weekly reporting banks in the period January 1 to October 9 rose $900 million, compared with $3.2 billion in the corresponding period of 1956. Thus, the greater issue of stocks and bonds almost exactly balanced the lesser growth in loans. Mr. Allen hoped that this meant that the growing practice of commercial banks making term loans for longer and longer terms had at last been arrested.

Business pessimism was greater than it had been, Mr. Allen went on to say, but he did not think it as yet deserved more than careful watching. Within the past week, two large business concerns--large both in the Seventh District and the nation--had told him that they were in process of laying off a substantial number of workers and in one case of curtailing plant expenditures substantially. Both of those companies had been guilty, in his observation over the years, of excessive optimism and pessimism alternately, Mr. Allen said, and a dampening of the high spirits they exhibited and implemented with the aid of substantial borrowing in 1955 and 1956 was long overdue. The more stable business managements in the Seventh District area for the most part do not appear to be more than normally pessimistic and almost universally applaud current monetary policy.

Once more Mr. Allen felt that the Committee should continue for the next three weeks as it had been doing for many months. He would

not favor a change in the discount rate or any other move which could be construed as a relaxation of credit policy. He would temper this comment to say that if errors were to be made they might be on the side of ease. In his relatively short time as a member of the Committee, Mr. Allen said that he had come to no better guide than what Mr. Leach called a "benchmark." He thought there should be such a benchmark, recognizing that the Desk had to play by ear to an extent. He would accept a figure of $350-$400 million as such a benchmark but he did not care too much about any specific figure.

On defense contracts, Mr. Allen said that he did not think there was sufficient information to call for any action at this time.

Mr. Deming said that there had been no developments during the past three weeks that enabled him to see the Ninth District picture more clearly. The net of the developments taking place was a continuation of the sidewise movement of the past several months. He had observed no district situation that would indicate anything different for the balance of the year. Looking beyond the Ninth District, Mr. Deming said that the continued weakness in the stock market concerned him, not because he saw this as mirroring what was happening but because it might influence near-term investment and inventory policy, thereby further weakening factors that are not expansionary at the present time. He also was impressed with the current Treasury pinch, the interest rate picture, and the possible increase beyond the normal seasonal expectations in demand for credit because of the change in

handling of defense contract payments. This combination of sidewise statistics, some bearishness in the outlook, confined mainly to the East and not evident in the Ninth District, and the prospective credit situation led him to believe that the Committee should be a shade less aggressive than it has been in following a restrictive policy. He suggested this take the form of a slightly lower net borrowed reserve position, with no change in the Committee's directive. He would not change the discount rate. Mr. Deming suggested that this probably placed him closer to the position indicated by Messrs. Allen and Shepardson than to the views expressed by some others.

With respect to discount operations, Mr. Deming said that Mr. Hayes had drawn a fairly clear distinction between treating defense contracts as seasonal developments and attempting to match dollar for dollar any increase in financing needs because of those contracts. In the Ninth District where there had been something of a problem in borrowings of member banks, a series of conferences had just been held with those banks, and Mr. Deming said that he would not wish to try to explain to individual banks at this time that defense contracts were to be regarded even in part as an appropriate use of Reserve Bank credit. However, he would be entirely willing to take this factor into consideration, along with other factors, in judging the appropriateness of applications for discount.

Mr. Mangels said that since the meeting of the Committee three weeks ago some statistics that had become available in the Twelfth

District gave evidence justifying the lack of enthusiasm apparent in business sentiment in the district during the past few months. Last year Twelfth District activities expanded more than in the nation as a whole. Earlier this year when a leveling tendency began in the nation this was less pronounced in the Twelfth District than in the country generally. More recently the Twelfth District trend had been much the same as the national trend but in some industries such as construction and manufacturing weakness had been greater than in the nation as a whole. At present there was little evidence of buoyancy in the Twelfth District economy and if any seasonal increase developed this fall it would be less than normal. Steel production declined 4 per cent in September from August. One mill had shut down two of its ten open hearth furnaces. Demand for structural and bar steel was off, and some types of sheet steel were in excessive supply. Lumbering continued at a low rate. Manhours worked declined almost 2 per cent between July and August. However, nonagricultural employment was expected to show an increase in September over August. Unemployment also had increased because of cuts in manufacturing and construction. Number of insured unemployed persons in the district was 50 per cent higher than a year ago, and in Oregon it was double that of last year because of the lumber situation. The Twelfth District agricultural situation was quite satisfactory, Mr. Mangels said, with crops generally good but with prices for most crops other than wheat and cotton down. Gross farm income in 1957 should about

equal that for 1956. A survey of bank loans to farmers showed that the banks were becoming more selective and that interest rates increased by as much as 1-1/2 per cent compared with a year ago. Loans to buy farm equipment were being watched particularly carefully. Large unit operators were improving their financial position whereas the position of smaller operators was worsening. Bank loans had declined during the three weeks ending October 9 and demand deposits also had decreased somewhat more than expected. Time deposits continued to increase but at a lower rate than in the past year. Fewer banks had been borrowing from the Reserve Bank in recent weeks, and twelve district banks were still net sellers of Federal funds.

With reference to defense contracts, Mr. Mangels said there had been inquiries from a number of banks but that no particular concern was yet evident as a result of the change in the Government's program. One large aircraft producer had indicated a need for as much as $100 million in addition to his regular $100 million line of credit and some discussion of a V-loan had occurred.

Mr. Mangels said that he felt operations during the next few weeks would require that the Manager of the System Account have more than the usual degree of latitude. He had in mind a $200-$400 million range of net borrowed reserves. He would not change the discount rate at present and he saw no need for a change in the Committee's directive.

Mr. Irons said that for the nation generally a mixed situation still prevailed. He agreed with Mr. Allen's views: there was no

clear indication of a break through either way and he was not impressed by a downward trend as yet, although he recognized this to be a touch and go situation.

In the Eleventh District there was an attitude of caution, Mr. Irons said. He would not call this pessimism, but businessmen were more cautious than they had been for some time. Economic indicators continued to show a high level with little change one way or the other. September department store sales were above September a year ago, but did not increase quite as much from August as expected seasonally. Construction contract awards were ahead of last year. In the petroleum industry the confidence quotient was low, Mr. Irons said, in that leaders expected further deterioration in the situation before any substantial improvement. He referred to a comment that the petroleum industry, through overdrilling and overproduction, had been trying to get itself into trouble for six or eight years, but every time that seemed near some fortuitous event kept them from doing so. The industry did not feel it could raise prices in order to cover increased costs of production, and it anticipated a profits-squeeze.

With respect to defense contracts, Mr. Irons said he had talked with several aircraft and missile producers and one of them summed up the situation by stating that from $1-1/2 to $2 billion of defense payments would be thrown on to them. They did not expect an even flow but there might be $700 million to $1 billion by December. Some of

these manufacturers were taking steps to increase their lines of credit. Their concern was not with the availability of credit, but in all cases the additional funds would be more costly to the borrowers.

The agricultural situation was greatly improved, Mr. Irons said, and the Eleventh District was probably in better position with a more favorable outlook for that activity than at any time in six or eight years. Large crops, favorable yields, and good fall pastures were being accompanied by increased payments from the Soil Bank. Retail trade people anticipate an increase in sales, gradually and moderately, although there was weakness in sales of durable goods.

With respect to policy, Mr. Irons felt that it was too early to make any change that would be perceptible in any way. The degree of restraint that had been achieved in the past three to six weeks should be maintained. He did not think it time to change the directive although in another three weeks some change in wording might be indicated. Meantime, the Committee should hold steady and maintain the same degree of restraint, although he would not increase restraint. Rather than say "make errors on the side of ease," Mr. Irons said he would prefer to say "avoid erring on the side of further restraint." He would like to see the Treasury bill rate and the Federal funds rate hovering around the discount rate with the bill rate within five to ten points plus or minus the discount rate. In administering the discount window, Mr. Irons would consider applications on an individual basis as

submitted without any special treatment for any specific industry or for defense contracts.

Mr. Erickson summarized the First District situation by saying that factors of weakness seemed to be slightly weaker and factors of strength were probably not quite as strong as they had been. The economy was still on a plateau which might be tilting. The Boston Bank's semiannual roundup of business economists including representatives from insurance companies, banks, universities, etc., was taking place today, Mr. Erickson said, and he presented the estimates that that group had made in forecasting the probable level of various measures of activity during the second quarter of 1958.

The annual meeting of stockholders at the Boston Bank had been held last week, Mr. Erickson said, and an uninspired, unsolicited resolution had been presented by one of the stockholders at the meeting, this resolution having been adopted by unanimous acclamation to the effect that the stockholders approved the policies and actions adopted and followed by the Federal Reserve Banks and the Board of Governors in their current efforts to combat the forces of inflation and to maintain a sound and stable currency in the United States. The resolution had also indicated strong disagreement with those believing that the alternative to creeping inflation was continuous substantial unemployment and depression.

Mr. Erickson said he agreed with Mr. Shepardson that the System should remain calm. He agreed with others that as seasonal

reserves were required the System should supply them. He would make no change in the directive at this time, preferring to take another look at it at the next meeting of the Committee. He would make no change in the discount rate. Mr. Erickson said that he would prefer to set no target of negative free reserves but to maintain restraint about as in recent weeks with the understanding that operations would err on the side of ease or less restraint. He would leave to the Manager of the System Account the responsibility for keeping the situation as tight as possible under the circumstances.

As for defense contract payments, Mr. Erickson reported comments by banks that between now and January 1 around $1 billion of credit might be required. However, he did not think it possible to determine at this time the size of the problem. He felt it best to consider each case as it arose on the basis of the bank and the particular situation. Something would have to be done or the desired goods would not be delivered. Defense contractors in the Boston District said that there was great confusion, mostly between the services and the contractors.

Mr. Szymczak said that he agreed with the substance of what Mr. Hayes had said. With the seasonal demands for credit, the Treasury's problems which were increasing by the day and which no doubt would increase much further between now and next March, and also with the lessened economic activity that could be observed, he thought the System should tend in the direction of supplying reserves to banks

so that net borrowed reserves would be somewhere between $300 and $400 million. He would lean more in the direction of $300 million, giving account to other factors in the market. This, however, was just an indication of leaning in the direction of ease, Mr. Szymczak said. He doubted that this was the time to change the wording of the Committee's directive. He doubted that insertion of the word "increased" as suggested by Mr. Hayes would be a significant change. He did not think the Committee should change its policy now, and he did not think there should be any change in reserve requirements or in the discount rate at this time.

With respect to defense contracts, Mr. Szymczak agreed with the comments Messrs. Robertson and Mills and others had made indicating that the Reserve Banks should not be selective in providing reserves. An attempt to be selective might well be inconsistent with the law and Board's regulations covering discounts.

Mr. Balderston said that before commenting on policy questions he wished to refer to the change in progress payments on defense contracts. At a meeting this afternoon, it was hoped to develop from the several agencies a clear enough factual picture for framing a news release and a letter to the prime contractors reassuring people that the Government will pay its bills, and urging prime contractors not to push the burden off on the subcontractors. The Treasury is concerned, he said, that the subcontractors getting this pressure would lay off employees and bring political pressure which would

confuse the situation even more. Mr. Balderston said the problem is apparently of much less magnitude than had been rumored. The only figure he had gotten as to the added load upon commercial banks was a figure of about $600 million (subsequently revised to $400-$500 million). The Air Force had stressed the fact that the impact would come gradually, not suddenly. Mr. Balderston said he had urged that the use of 13b on any extensive scale would conflict with the System's current policy by putting high powered money into the economy, but that the Reserve Banks would, of course, give appropriate consideration to any requests under that section. Mention also had been made of the V-loan provision and Mr. Balderston said that he believed this might be the most practical road for individual contractors to follow. As to use of the discount window, his retort had been that there still was a commercial banking system and that contractors, both prime and sub, had banking connections which they should use in the normal way. It would be unwise, he said, for any indication to go out from Washington to the prime--and from them to the subcontractors indicating what kind of action individual Reserve Banks would take in particular situations. He had taken the position that the administrative agencies should avoid promises as to possible Federal Reserve action.

As to monetary policy, Mr. Balderston said he found himself in disagreement with most of those who had spoken, leaning to the point of view expressed by Messrs. Mills, Szymczak, and Hayes. To

him, the effective administration of flexible policy would seem to turn upon the timing and degree of change. As to the first, he would lean toward promptness to avoid too long adherence to what might impress people generally as a crusading but unrealistic position. As to degree of policy changes, he leans ordinarily toward gradual as distinguished from drastic ones.

As to the present, Mr. Balderston said he would delay dramatic actions until changes in business were more clear than at the moment. He interpreted the staff analysis as indicating the likelihood, but not the certainty, that business may be turning down. The fall in stock market prices would seem likely to cause luxury buying to diminish. Last week he had stayed at a luxury hotel in the South at which he had been told of cancellations. Data for electric power, car loadings, and plant and equipment outlays seemed to sustain the conclusion that a downturn may have come. Because of these uncertainties, the Committee might wish to consider at its next meeting a change in the directive. If a change should be made at that time, the emphasis he would favor would be reflected by some such wording of clause (b) of the first paragraph of the directive as follows: "to fostering economic growth that is sustainable, despite some continued upward price pressures and uncertainties in the financial markets and in the international situation that have their impact on business health." Mr. Balderston said he had been unhappy with the present directive for some time. It seemed

to him the time might come shortly to give "sustainable growth" more emphasis than in the recent past.

As to the Committee's goal for the next three weeks, Mr. Balderston said he would favor a target of about $200-$250 million of net borrowed reserves. He also raised the question whether, in view of the current uncertainties, it might be desirable to schedule the next meeting of the Committee in two weeks rather than three.

Mr. Hayes said that he was in hearty agreement with the view that the System should avoid an announcement that would publicize the provision for loans for industrial purposes under section 13b of the Federal Reserve Act as a means of solving the problem with respect to defense contract payments. As requests were received at the Reserve Bank they should, of course, be processed case by case. Mr. Hayes also felt that there was some possibility of V-loans being used constructively, but he suggested that any initiative or publicizing of that means should come not from the Federal Reserve but from the commercial banks or the Government.

With respect to credit policy, Mr. Hayes said that it seemed to him the Committee had an easier time finding a consensus on the policy to be followed in the next few weeks than it would have on an appraisal of the economic outlook. There was a fairly even division between those who appraised the outlook with the view that statistics and developments that had been observed held a considerable threat of recession and those who felt that basically such a possibility was

still to be demonstrated and that recent developments were largely psychological with the basic factors remaining strong.

When it came to what should be done, Mr. Hayes said, it was much easier to find an approach to unanimity. It was clear that at this juncture the Committee did not wish to make any overt move or give any public signal that it was changing policy. It wished to supply seasonal needs reasonably freely. It certainly did not wish to increase restraint from what it has been. There was a mixture of feelings on the other side, some feeling that the Committee should actually diminish restraint a little, but more members feeling that it should resolve doubts on the side of ease. Mr. Hayes noted in this connection that the suggested target or benchmark figures of net borrowed reserves including the target figures suggested by those who wished to hold steady, were a little lower than the net borrowed reserves the Committee had wanted during the past three weeks. At its preceding meeting, the Committee had been thinking of a $400-$500 million range, possibly nearer to $500 million, whereas the average of suggestions at this meeting was around $350 million. Be that as it may, Mr. Hayes said that he thought it clear that policy was to give the Manager of the System Account considerable latitude, to resolve doubts on the side of ease, and not to emphasize the figures too much because of the importance of some of the other factors. To the extent that figures do enter in, there was quite good unanimity around the figure of $350 million as an average for the coming three

weeks although some had suggested a lower figure.

On the question of the directive, Mr. Hayes stated that it seemed quite clear that most members of the Committee did not wish to make a change at this time. The consensus was that the Committee give consideration to the question whether a change might be desirable in the near future. He recommended that between now and the next meeting all of those present give careful thought to the suggestions of Messrs. Leedy and Balderston for a change in the wording of the directive.

With respect to the discount window and defense contracts, Mr. Hayes said it was apparent that while views had been expressed in different language, none of those who had commented wanted other Government agencies to refer to the discount window as a specific solution to the problem. The Reserve Banks probably did not wish in their own statements to member banks to make much of this as a specific problem, although they wished to take this factor into consideration in the same manner as any other factor affecting the seasonal needs of an individual bank.

Summing up, Mr. Hayes said that general policy was not to be changed appreciably, although it should tend a little on the easier side from where it had been in recent weeks. The Committee wished to give the Manager of the Account substantial leeway to be guided by the feel of the market. There should be no overt public move and no change in the general directive at this time, and there was no desire

for a change in discount rates. Mr. Hayes inquired whether anyone differed from this evaluation. In the absence of comment, he suggested that this summary be considered the consensus of views at this meeting and that the directive be renewed without change.

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:

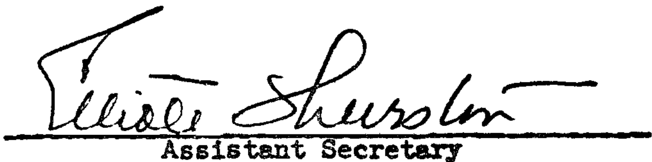
(1) To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System open market account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary 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.

Mr. Hayes noted that Mr. Balderston had suggested the possibility of setting the date for the next meeting of the Committee two weeks from today. There was brief discussion of this suggestion, at the conclusion of which it was agreed that the next meeting would be set for Tuesday, November 12, 1957, at 10:00 a.m.

Thereupon the meeting adjourned.



Assistant Secretary