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, March 25, 1958, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Fulton
Mr. Irons
Mr. Leach
Mr. Mangels
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Vardaman

Messrs. Erickson, Allen, and Deming, Alternate Members of the Federal Open Market Committee

Messrs. Bopp, Bryan, and Leedy, Presidents of the Federal Reserve Banks of Philadelphia, Atlanta, and Kansas City, respectively

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Daane, Hostetler, Marget, Walker, and Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Carpenter, Secretary, Board of Governors
Mr. Kenyon, Assistant Secretary, Board of Governors
Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Stone, Manager, Securities Department, Federal Reserve Bank of New York

Mr. Freutel, First Vice President, Federal Reserve Bank of St. Louis; Messrs. Ellis, Roosa, Mitchell, Strothman, and Tow,

Vice Presidents of the Federal Reserve Banks of Boston, New York, Chicago, Minneapolis, and Kansas City, respectively; Mr. Einzig, Assistant Vice President, Federal Reserve Bank of San Francisco; and Mr. Anderson, Economic Adviser, Federal Reserve Bank of San Francisco

Chairman Martin stated that Mr. Johns, Alternate Member of the Federal Open Market Committee, was unable to attend this meeting because of illness and that, in the absence of objection, Mr. Freutel, First Vice President of the Federal Reserve Bank of St. Louis, would attend the meeting at the suggestion of Mr. Johns as an observer.

There being no objection, Mr. Freutel joined the meeting.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on March 4, 1958, were approved.

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 March 4 through March 19, 1958, and a supplemental report covering commitments executed March 20 through March 24, 1958. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Reporting on operations since the last meeting, Mr. Rouse said that it had been necessary to maintain free reserves on the high side of the range that had been suggested by the Committee in order to achieve the degree of ease that was intended. During much of the

period since the last meeting, the New York and Chicago banks had been under moderate pressure. The Chicago situation reflected in part the stockpiling of bills by banks in anticipation of the April 1 personal property tax date in Cook County, while some part of the tightness in New York reflected continued purchases by banks of Government securities and the extension of sizable loans to dealers. Also, an underlying influence affecting reserve positions in the money centers was that the aggregate volume of free reserves had generally continued to be heavily concentrated in country banks. Mr. Rouse noted that rates on short-term debt instruments moved lower toward the close of the period. The average issuing rate in the bill auction on Monday, March 24, was 1.19 per cent, compared to 1.34 per cent the previous week, and the rate on bankers' acceptances was reduced by an additional 1/4 of 1 per cent after the close on March 24. The market for longer-term Government securities showed some improvement during the period, but a restraining influence had been exerted by recent announcements of large scale financing to be undertaken by private firms in the near future. Almost $750 million of such financing had been announced during the past two weeks. In view of this large volume of offerings, it could hardly be expected that there would be much, if any, decline in long-term interest rates.

The Treasury issued special certificates to the New York Bank on two occasions since the last meeting in order to avoid

overdrafts. Based on the estimates at the New York Bank, the Treasury's use of the special certificates reflected not so much a dearth of available cash balances, although they were low, but rather a desire to use the device at least once before the legislative authority to obtain such accommodation expires next June 30.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period March 4 through March 24, 1958, were approved, ratified, and confirmed.

Chairman Martin referred to the preliminary draft of record of policy actions taken by the Federal Open Market Committee during the year 1957 which had been distributed with a memorandum from the Secretary dated March 14, 1958, in order to obtain comments and suggestions prior to action by the Board of Governors on the final form of record to be included in the Board's Annual Report pursuant to the requirement contained in the last paragraph of section 10 of the Federal Reserve Act. He said that a number of comments had been received and that the matter had been placed on the agenda for this meeting to provide an opportunity for any additional comments.

The Chairman then called upon the Secretary, who stated that comments had been received from most of the Presidents, that they had been constructive, and that in almost all cases the suggestions had been incorporated in the draft. In a few cases, however, it

was not possible to fit in the suggestions with the minutes of the Committee on which the policy record was based.

Two general problems were the subject of comment, Mr. Riefler said, the first having to do with how to treat discussions relating to the discount rate. One suggestion was to eliminate reference to all such discussions, but this did not seem proper because discussion of the discount rate represents an important part of the record. Therefore, an effort had been made to handle the matter by making it clear in the policy record that the rate was discussed in objective fashion as something within the responsibility of the directors of the Federal Reserve Banks. The second general comment, made by two or three parties, was in substance to the effect that the record for the first six months of 1957 showed considerable filling back and forth and therefore did not seem to justify the policy of restraint actually adopted. An attempt had been made to take account of these comments by certain minor modifications, but in general the draft of policy record reflected the way the minutes actually ran.

Mr. Riefler concluded by saying that a revised draft of the policy record would be sent to the Presidents promptly and that the intention was to place the record before the Board for final approval in that fashion. However, if any of the Presidents had any strong feeling about the revised draft, it would be appreciated if they would get in touch with the Secretary.

Mr. Hayes raised a procedural question, asking whether it had not been suggested at a meeting of the Committee last year that drafts of entries for the policy record be prepared and distributed after each meeting so that the drafts could be considered while there was still a feel of the respective meetings.

Mr. Riefler responded by explaining the practical problems that had prevented this practice from being followed last year. He said that beginning with this meeting an effort would be made to follow the suggested practice consistently, with the understanding that the entries for the meetings held previously this year would be prepared as soon as practicable.

Mr. Hayes then referred to a suggestion he had made, and the reason therefor, relating to a change in the draft of policy record for the meeting of the Committee on March 5, 1957, and the Chairman replied that the change would be reflected in the revised draft.

Members of the Board's staff entered the room at this point to assist Messrs. Young, Thomas, and Marget in the presentation of an economic and credit review, illustrated by chart slides. Mr. Storrs, Vice President of the Federal Reserve Bank of Richmond, also entered the room for this presentation. A copy of the script of the review was sent to each member of the Committee following the meeting.

The review indicated that during the period since the similar review of the economic situation given at the meeting of the Committee

on January 28, 1958, activity and employment in this country had declined considerably further. Industrial production during February was down to 130 per cent of the 1947-49 average, as compared with 135 in December and 145 last August, and March appeared to be lower. Thus, in the six months from August to February, industrial production declined a little more rapidly than in the corresponding periods of 1948-49 and 1953-54. Employment had continued to decline in manufacturing and also in nonmanufacturing lines, with the declines particularly marked in durable goods industries. Unemployment rose sharply to 5.2 million in February, the number of workers on part-time had increased further, and the number working overtime had continued to decline. In March, new claims for unemployment compensation remained at a high level.

Meanwhile, as in the 1953-54 recession, prices generally had not declined. Consumer prices in February were appreciably higher than in December, reflecting higher food prices and higher charges for services, and a further rise in wholesale prices resulted from advances in livestock and products and also in fresh fruits and vegetables, whose supply has been curtailed by unusually severe winter weather. The broad average of industrial prices had changed little since last summer and sensitive industrial material prices, which declined sharply late last summer and in early autumn, showed little further decline in recent months.

In security markets, prices of common stocks had moved up irregularly, and were now about 8 per cent above the low reached

late in 1957, while stock market credit increased in February for the first time since last June. Prices of high-grade corporate bonds had declined slightly since late January, following earlier sharp advances.

The recent declines in economic activity and in business inventory holdings had been accompanied by a more than seasonal reduction in bank loans. Banks, however, had been increasing their investments since late last fall, and total bank credit outstanding had increased at a season when a decrease is usual. Also, despite reduced business spending for plant and equipment, corporations had sought and obtained large amounts of new capital in security markets and new borrowing by the United States Treasury and its agencies had been large.

Increased availability of funds in both long- and short-term markets on terms much more favorable to borrowers than earlier had reflected in considerable part broad economic developments tending to increase the supply of funds and to limit demands. Also, Federal Reserve policy had contributed to easier credit conditions, through actions to increase the availability and lower the cost of bank reserves.

As to external developments, there had been a fair degree of stability in activity abroad, the leveling off in activity had had a disproportionate impact on exports from this country, but the major part of the downward adjustment in exports appeared to have already

been completed. On the other hand, the recession in the United States had thus far had only a limited impact on other countries.

The review also pointed out that the 1957-58 recession in activity had now extended as far as the recessions of 1948-49 and 1953-54, and that there was as yet little indication that the leveling off which came at about this stage in those earlier periods was an immediate prospect. Consequently, many people were concerned over the possibility that declines in activity, income, and trade might become cumulative--despite easing of credit conditions--and that this recession might be of considerably more serious proportions than the other two postwar recessions. At the same time, adjustments in prices to changed demand conditions had been few, except for sensitive materials. Thus, it seemed possible that action intended to stem the decline in activity and employment might not succeed until more realistic adjustments had been made in policies with respect to prices and costs. The shift from inventory accumulation to liquidation at a substantial rate apparently had about run its course, which might suggest a leveling out in the economy near the present rate. Producer outlays for capital goods, however, were continuing downward and as yet no turning point was in sight, with scheduled outlays in the second half well below those of the first half. The record of earlier cycles, however, indicated that leveling off in activity and even recovery need not necessarily await a turnaround in capital goods.

Government outlays were rising at both the national and local levels, but at this point the course of consumer outlays, whose rapid advance was a key element in the 1954-55 recovery, seemed rather uncertain. Consumer prices had continued upward notwithstanding declines in consumer incomes, and the current decline in private capital goods spending might have a greater dampening effect on consumer confidence than the declines in Government expenditures in the 1953-54 recession. How far residential building might be stimulated by easier credit conditions was yet to be determined.

While the decline in activity appeared to be carrying further than in either of the other postwar recessions, there were strong reasons for believing that it would not go to any such length as in the years following 1929, and that it would not be as sharp as in 1937-38. The current business and financial situation, both at home and abroad, was hardly comparable with the situation after 1929 and many elements were more favorable than conditions prevailing in 1937.

To the extent that policies of credit restraint in effect from 1955 to 1957 discouraged speculation and unwise financial commitments, they had no doubt helped to limit the extent of the current decline and to increase the likelihood of recovery without prolonged unemployment or basic loss of confidence, and the shift to a policy

of credit ease in recent months represented an important development whose effects should be felt increasingly as necessary adjustments were made in various sectors of the economy. Projections based on usual seasonal trends, together with Treasury financing needs, indicated prospects for free reserves generally averaging well above half a billion dollars during the next three months without any further Federal Reserve action. Should banks put available reserves to use and maintain credit above usual seasonal trends, then free reserves would be lower. How long maintenance of bank credit and further recession in economic activity could continue simultaneously raised an interesting question as to the future.

Following the review, Mr. Hayes made a statement on business activity and credit policy substantially as follows:

> Unfavorable developments have dominated business news in the past three weeks and will probably continue to do so in the coming weeks. Recent figures on industrial production, unemployment and actual and projected capital expenditures were fully as bad as, or worse than expected. It is true that several economic series seem to be leveling off--notably new orders for machinery, paperboard, plywood and other products, steel production, prices for industrial raw materials (including the very sensitive index for scrap and waste materials), and ocean freightrates. But no reliable inference can be drawn from these scattered signs, and on the whole business activity in March will very probably fall short of the seasonal improvement normally to be expected.
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> Inventory liquidation continues at a rather rapid pace--perhaps at an annual rate of about $5 billion--but this will not necessarily set the stage for a rapid business recovery in view of the pronounced downward trend of plant and equipment expenditures. While consumer buying has been remarkably well sustained so far, the February figures on retail sales

were below a year ago for the first time and the shortfall may increase in March in view of the cumulative effect of unemployment and shorter hours on consumer expectations and consumer buying, aggravated by poor weather and perhaps by expectations of future excise tax cuts. Whether and when higher Government spending will become an important favorable force is still problematical. The prospective increase in the actual level of defense expenditures in the coming months seems scarcely large enough to provide a major offset to downward economic influences. On the other hand, as a result of current widespread discussion of important new Government spending programs or a tax cut, or both, important new stimulating forces may be injected into the economy within a few months. Meanwhile the public, both here and abroad, seems to exhibit an encouragingly calm attitude toward the recession as it has developed to date.

In the area of bank credit, the last few weeks have witnessed a very sharp rise in holdings of Government securities as compared with a small drop a year earlier. Although tax borrowing has run considerably behind last year, the rise in total loans and investments has far exceeded that of last year. If we compare early March with mid-November figures, we find that total loans and investments in weekly reporting banks increased by nearly $2.5 billion, of which a large proportion was in New York. Money supply figures are less satisfactory, mainly because of continuing growth of time deposits and a bulge in Government deposits. The latter, of course, may prove to be temporary, bringing a corresponding rise in the money supply in March, and in any case the trend of the money supply was better in February than in the two preceding months. Required member bank reserves declined about $270 million in the period from mid-November to early March, but after making allowance for the first cut of 1/2 per cent in reserve requirements, we may say that total required reserves (the base for a larger money supply) rose by about $200 million--a trend which we should certainly regard as encouraging, since free reserves were also rising at the same time.

Estimates of the Treasury's receipts and expenditures over the rest of the fiscal year point to a need for perhaps $3 to $4 billion of cash financing, and a good part of this may be undertaken within the next week or two.

The business outlook clearly calls for a policy of ease. I think we would all like to see monetary policy playing as effective a role as it can, particularly during this phase of

recession when so much is expected of it by the country in general. While the statistical record of free reserves and short-term interest rates since the last meeting suggests that the degree of ease desired by the Committee has been achieved, I have been somewhat disturbed by the recurring tendency for a feeling of relative tightness to develop in the money centers, with unused reserves accumulating in the country banks. There is no assurance that the big city banks will always be able to find and use these accumulated reserves. We should, in my view, seek ample availability of bank credit and the creation of an atmosphere where banks are actively seeking loans rather than looking with equanimity on their repayment. In a sense, just as excessive bank liquidity made it difficult to apply effective restraint two or three years ago, so the sharply reduced level of liquidity achieved in the later stages of the boom is having a dulling effect on our efforts to stimulate lending. For example, the New York banks still feel that their loan-deposit ratios are rather high, in spite of the sizable acquisition of Government securities already mentioned, and we see little evidence yet of an aggressive search for good loan opportunities.

I believe that open market policy should seek to maintain at least the present degree of ease and preferably to achieve a greater feeling of ease in the money centers. While I would de-emphasize the free reserve target, I would expect that a minimum of $500 million of free reserves would prove necessary to achieve the desired result, and I would have no qualms about going as high as $750 million if this did not cause an atmosphere of market sloppiness. While the latest reduction in reserve requirements has done much of the necessary job for the coming three weeks, some moderate purchases may be needed.

Incidentally, in view of the recurring tendency toward undesirable tightness in the money centers, I was a little sorry that the latest reserve requirement cut did not include some start toward narrowing the differentials among the various classes of banks, especially with respect to the central reserve city banks. At last week's meeting, the New York Bank's directors unanimously expressed the view that it would be helpful in promoting greater availability of credit if the Board of Governors would move as promptly as practicable to eliminate the differential between central reserve city and reserve city requirements.

As I mentioned at the last meeting, I feel some concern over the heavy backlog of new capital issues and the rather heavy tone in the capital markets, which are responding only very sluggishly to the ease engendered by Federal Reserve policy action in the short-term market. I might say

parenthetically at this point that a lot of these new issues are designed to repay bank loans, which I think is a highly desirable objective in the present circumstances. There have recently been a number of comments in the market as well as from economists and the press to the effect that the System is open to criticism for failing to take direct action in the longer-term market--that the process of arbitrage has been operating too erratically to provide the timely and vigorous encouragement for investment which current economic conditions call for. Our own analysis does not indicate a need for releasing reserve funds directly into the long-term market at present. I am hopeful that the passage of time may bring substantial improvement, as longer-term expectations become clarified, so that I would certainly think it premature to suggest direct System action at this time. Nevertheless, I think the Committee should be fully aware of this possible obstacle to a maximum contribution by monetary policy to the forces of recovery and should keep this matter under study.

I can see no need for considering at this meeting a change either in the discount rate or in the directive.

Mr. Bryan stated that the picture in the Sixth District seemed to show, over all, a slow but steady deterioration. There were a number of district statistics going in different directions but it seemed to him that the most reliable indicator of the general economic picture was insured unemployment, which was steadily growing although a little better than the national picture. There were two States in the district having over 10 per cent of the insured workers unemployed, while the only really good situation was in Florida where the rate of insured unemployment was only about 3 per cent. Commercial bank loans had been going down recently at a rather more rapid rate than for the country as a whole.

With regard to the national outlook, Mr. Bryan said he shared the view which had been expressed that there was a very considerable

problem regarding use of the commercial banking system as a dynamic instrument in fostering recovery. He did not believe the commercial banking system would be brought in as a dynamic, active factor until it had substantially greater liquidity than at present. The situation differed from 1953 because the move toward recovery would have to start from a much higher level of "illiquidity." Consequently, he would favor a substantially greater easing of the monetary situation in an effort to induce the commercial banks actively to seek out good borrowers, and to him it seemed immaterial whether that was done by open market operations or by further reductions in member bank reserve requirements.

Mr. Bopp said that there was as yet little evidence of even a seasonal upturn in business activity in the Third District. Preliminary data for eight labor-market areas in eastern Pennsylvania, including Philadelphia, indicated that factory employment in February was 1-1/2 per cent below January, and 6-1/2 per cent below February 1957. Employment had declined in each of the labor-market areas except Harrisburg, which had only a small increase. Although new unemployment compensation claims in Pennsylvania declined in each of the three weeks ending March 13 and continued claims leveled off after dropping slightly in the first week of March, both new and continued claims were still about double the levels prevailing during the same period last year. Department store sales had shown some

improvement in the past three weeks. Sales in early March were substantially above a year ago, but volume in the latest week was unchanged from last year. The good showing in early March reflected comparison with a low level of sales in the same weeks last year and the fact that Easter is earlier this year than last. For the four weeks ending March 15 and for the year to date, sales were 2 per cent below last year. Sales of new automobiles were slow, and inventories were reported to be burdensome. New car registrations in eastern Pennsylvania for February were about 25 per cent below January and nearly 30 per cent below February last year. Registrations in Philadelphia in the first three weeks of March were 10 per cent above the preceding three weeks, but still nearly one-third below a year ago. The consumer price index for Philadelphia was up one-tenth per cent in February as compared to an increase of two-tenths nationally.

Mr. Bopp went on to say that business loans of district reporting banks, after having declined each week so far this year, turned upward in March, the increase for the two weeks ending March 19 being $46 million (less than 2 per cent). The rise was accounted for mostly by sales finance companies and utilities, and probably reflected borrowing to meet tax payments. In both 1957 and 1956 there was a seasonal expansion in business loans beginning in February and continuing, with only minor interruptions, until midyear. Consumer and real estate loans had shown little change

this year, the former being slightly above and the latter slightly below the levels of last year. Weekly reporting banks had been adding to their investments, the increase being fairly well distributed among Treasury bills, certificates, and bonds, and other securities. Private demand deposits and time deposits were also up substantially. Member bank borrowing from the Reserve Bank, reflecting the easier credit policy, continued at a very low level. During the three weeks ending March 19, the daily average was $7 million as compared to $67 million last year. Purchases of Federal funds were also at a low level.

As to monetary policy, Mr. Bopp expressed the view that a further reduction of one-half per cent in the discount rate seemed warranted by the deterioration in the business situation, the easing of reserve positions, and the current rate on Treasury bills. As to open market operations, he would favor maintaining an easy tone in the money market. In part because of the reduction in reserve requirements that would become effective for country member banks on April 1, he would not pay much attention to the level of free reserves and would not be disturbed to see the level significantly higher than would otherwise be needed to maintain an easy tone. As a more appropriate measure of ease at this time, he would prefer to see the Federal funds rate below the discount rate. In the broader area of credit, he was disturbed by the contrasting developments in the capital markets on the one hand and in the money market on

the other, as reflected in the report of open market operations distributed prior to this meeting. The yield on Aaa corporate bonds had been rising recently--only very slightly but still rising, not falling. The reoffering yields on new public utility bonds, though down a bit in the past weeks, were significantly above those of two months ago, and there had been periodic congestion in the bond market.

What disturbed him in these developments, Mr. Bopp said, was that the increasing ease created and permitted to develop in the money market had not been transmitted effectively enough to the capital market. This transmission might come eventually, but he wondered how much time there was. When he read some of the proposals that were not only being brought forward but were receiving considerable support, he doubted whether there was very much time. It seemed to him that an easier and cheaper capital market would make a significant contribution to recovery, for it would encourage new issues that would bolster a sector of the economy now giving concern. In this connection, a compilation by one of the Reserve Bank's directors regarding use of the proceeds of public utility issues (other than the A.T.&T. issue) in the last three months showed that out of $730 million of new offerings, only $40 million was for refunding; $246 million was to repay bank loans and $443 million was for new money.

Mr. Bopp said that he was aware of some of the dangers and disadvantages, as well as the technical and operating difficulties, that arise when a central bank exhibits a direct interest in the capital market. On the other hand, he was disturbed by some of the proposals being pushed and gaining support to promote recovery and that, on balance, seemed to him to be less desirable. Therefore, he wondered whether the System could or should do anything in this area in the light of current developments and their possible short and long-run consequences.

In reviewing conditions in the Fourth District, Mr. Fulton said he could not add any sunshine to the comments made thus far. The steel industry was steady, but at a low level of operations, with one company at the lowest rate since 1939. In essence, the situation was one reflecting poor demand. However, a little firmness seemed to be coming from the structural end of the steel production picture and steel men were looking to that as a part of the industry to increase in the months ahead. The lake shipping season was about to open but only a portion of the ore boats were going to be put into commission. The comment had been made that if two-thirds as much ore was carried this year as last, they would be satisfied, but, in view of the current stockpiles, not too good a movement was expected. Scrap was at a price representing almost a four-year low. The possibility of a price increase in basic steel seemed quite imminent after wages in the steel industry go up again in

July. The machine-tool industry had had a pickup in orders, but this was not of too much substance because in December orders hit the lowest point in many years and they were still at a very low rate for the industry. Shipments were running at double the rate of sales so that backlogs would soon be used up. The glass industry was going along in fair shape although automobile glass was very slow. The comment had been made that if one million new houses were built this year, there would not be too much impact because manufacturing capacity is large. The coal industry was going along with the steel industry and no pickup seemed imminent. As to inventories, some companies seemed to have reduced inventories below working requirements. Several manufacturers reported that they had received so-called "expedited orders," and when the manufacturer began to make up the order he found that he too was short of material. Therefore, there was a feeling among businessmen that any pickup, when it came, would be manifested quickly down the line of manufacture because inventories were at such a low level. Companies having a smaller portion of their sales to the automotive industry were faring better than those companies which make a substantial portion of their sales to that industry. The net increase in unemployment was below new claims filed, indicating that some employers were rehiring employees previously laid off. One new area had been added to the substantial labor surplus classification. Department store sales were about 5 per cent below last year on a year-to-year basis and

this was not too good for the period before Easter. Building was a bright spot in the picture, but not too bright; permits were higher than last year but business plans were being stretched out over a longer period and some plans were being postponed temporarily.

Mr. Fulton had received verification that companies were resorting to the capital market to pay off bank loans, which tended to indicate that the banks would have adequate funds to make loans if they wished. However, because of the thought in the minds of some bankers that loans were high, he did not believe that anything the System could do would encourage the banks to make loans as long as the ratio of loans to deposits was as high as had been the case for the past year or so. He sensed a reaching for liquidity that would very probably make the bankers hesitate to increase their loans regardless of the repayment factor, and he did not believe that monetary policy could foster the making of loans where the policy of the individual bank dictated against increasing the loan portfolio.

With reference to monetary policy, Mr. Fulton said that he still would like to see the discount rate reduced at least to 2 per cent, with possibly, as Mr. Bopp had suggested, a reduction of 1/2 per cent from the present 2-1/4 per cent rate. It was his opinion that free reserves should be at a minimum of $500 million; in other words, that figure would seem to him appropriate as a floor. He believed that the Committee should have a posture of supplying

reserves willingly and in sufficient volume. Some restraint, he said, would come from the attitude of bankers and the market itself. Therefore, the System should supply reserves freely.

Mr. Shepardson said that although he did not see anything particularly bright in the economic picture, the dark spot to him was the failure during the current period to get many of the adjustments that he had hoped for, particularly in respect to the price situation. However, some of the reports in the press with regard to wage negotiations and similar matters did indicate the possibility that the labor interests were going to temper their requests somewhat. He considered it important not to try to stimulate and change too quickly until the adjustments which he mentioned had been obtained, and for that reason he would not like to see any further easing of monetary policy at this time. Except possibly for the money market banks, the banks of the country seemed to have plenty of funds, and in the circumstances he would not favor raising the target for free reserves. From the standpoint of its relationship to other money market rates, the discount rate might be further adjusted, but there appeared to him to be a sufficiency of available funds at the present time.

Mr. Robertson said that on the basis of the facts presented, he saw no reason to deviate from the goal fixed by the Committee at its last meeting. However, since he was firmly convinced that the

economy was tending to bottom out and would do so soon, he would favor taking every opportunity to reduce both reserve requirements and the discount rate in order to be in a better position to move fast and in big jumps when the upward movement in the economy started. He hoped that the System would have the wisdom and courage to act quickly to sop up reserves when the time was appropriate.

Mr. Mills commented that his position was contrary to the general tone of recommendations expressed up to this point at the meeting. He believed everyone would recall that when an aggressive policy of credit restraint was being followed last year, both here and abroad, the point was made in some quarters that a heavier burden had been placed on monetary policy than could be reconciled with its potentialities as an economic corrective. In his opinion, the same point could justifiably be raised again, but this time on the easy side of credit policy which, by constantly piling new reserves on new reserves, was in that process forcing interest rates down to a level that would hinder rather than help the Federal Reserve System in its efforts to foster economic growth and stability. To illustrate his point, Mr. Mills said that in retrospect the tentative goal of $500 million of positive free reserves set by the Committee at its last meeting may prove to have been more liberal than called for by the necessities of System policy. As this was a period that had been subject to the unsettling market influences of Federal income tax collections, Treasury financing, and preparation for the

Illinois personal property tax date, Mr. Mills felt that there was little significance to the fact that some signs of tightness had occasionally appeared, especially in the central reserve city bank area. On the contrary, he believed that the true facts reflecting the supply of reserves available to the commercial banking system had been revealed by the 1.18 per cent Treasury bill yield produced at yesterday's auction, another reduction in the interest rate for bankers' acceptances, and a 1/2 of 1 per cent rate for Federal funds. It seemed to him that if reserves had been supplied less aggressively, the response in interest rates would have been more consistent with the System's general policy objectives. Consideration of the facility with which commercial paper and bankers' acceptances were being marketed at constantly lower interest rates suggested to him that the rates of interest acceptable to the more distant credit markets were presently a more reliable indicator of over-all credit market conditions than the gyrating rates currently applicable to Federal funds and Treasury bill credit transactions in the New York money market, and hence System policy actions should be guided accordingly.

Mr. Mills went on to say that he had been impressed by Mr. Bryan's able analysis of the commercial banking system and the liquidity considerations related to the high level of bank loans as compared to past years. However, his own thinking diverged very strongly from Mr. Bryan's suggestion that it would be desirable to drive the commercial banks into more aggressive lending and investment

policies by freely supplying them with new reserves. As Mr. Mills saw it, such a policy would merely serve to lay another layer of reserve fat over a framework of bank loans that may stand to be weakened by the deterioration in economic conditions. Under such circumstances, to supply additional reserves to a point that would substantially soften the interest rate structure could tend to draw the commercial banks into making unwise investments and weak loans as a means of maintaining their earning positions.

In the light of the reasoning which he had expressed, it was Mr. Mills' opinion that the Committee should proceed cautiously in supplying reserves and should allow a reasonable period for testing the effects of previous reserve actions before taking new ones. He thought that a level of $400 million of positive free reserves, or even lower, would be adequate to exert the kind of economic influence sought for by System policy. He also called attention to the Treasury's approaching financing operation and the problem that would arise as to what reserve support it should be given. In his opinion, it would be preferable for such support to come as far as possible from the reserves already available at the time of the Treasury's financing and without supplying any additional reserves.

As a last point illustrating the kind of difficulties that arise from overloading the mechanism of monetary policy, Mr. Mills contended that the problem in handling repurchase agreements that was the subject of Mr. Rouse's recent memorandum could be traced

directly to System policy actions in supplying reserves that had had the undesirable effect of forcing a wide divergence between short-term interest rates and the Federal Reserve Bank discount rate. All things considered, he felt that it would be a mistake for the System to be stampeded into a policy too aggressively on the side of credit ease.

Mr. Vardaman said that in order to save time and avoid repetition, and primarily because in this instance he agreed so completely with Mr. Bryan, he would ask Mr. Bryan's permission to join in his thesis. He found himself in disagreement with part of Mr. Mills' remarks, although he appreciated what Mr. Mills had said and would like to see his comments in writing. He concurred in the hope expressed by Mr. Hayes that $500 million of free reserves would be set as a base, with leeway above that figure up to the point of a sloppy market. He disagreed with the theory expressed by Mr. Shepardson and felt that the System would have to lay another layer of reserve fat on the banks before they were going to get out and make loans aggressively, since he felt that the principal deterrent right now to people doing business was the unfortunate and unnecessary attitude of alleged conservatism on the part of the commercial banks. In his opinion, this meant that all the System could do was to give the banks reserves and that it was up to the banks whether they wished to use them.

Mr. Leach stated that economic activity continued to decline in the Fifth District, with coal mining currently showing the sharpest

change. Output of coal in the four weeks ended March 1 was 12 per cent smaller than in the preceding month and 26 per cent less than a year ago, reflecting weakness in both domestic and foreign demand. Furniture manufacturers continued to cut back their operations and the only textile division showing improvement was hosiery, which had been in a depressed state for several years. Two special surveys last week cast current light on the district construction picture. Home builders stated that mortgage money was readily available on improving terms and they were confidently planning expanded operations in 1958. The most common rate on conventional loans was now 5-1/2 per cent but some loans were being made at 5 and 5-1/4 per cent. The number of points discount asked by lenders on FHA loans had recently declined from 3 per cent to 1-1/2 to 2. Contractors in the heavy construction area expected a high level of work this year, primarily for State and local governments and nonprofit organizations, and they reported that competition was extremely keen. The number of bids on each project had been increasing and bids recently submitted had been substantially lower than advance estimates. Some bids were said to include little profit to the contractors or subcontractors.

In the light of current economic developments, Mr. Leach thought it was incumbent upon the System to do all that it could in the field of monetary policy to promote a recovery. As a corollary to the recent reduction in reserve requirements and as

continued reassurance to the market, he believed that it would be desirable to establish more ease through a higher level of free reserves. He was thinking currently of $600 million of free reserves as a benchmark, with the usual qualification as to the value of this single indicator. This would allow a sizable part of the reserves released by the recent reduction in reserve requirements to be reflected in additional liquidity of the banking system if not in new loans. This further step to increase reserve availability and add to the liquidity of the banking system represented, in his judgment, the proper role of the System under current conditions. Admittedly, as was demonstrated in 1954, actions which increase the liquidity of the banking system during a recession automatically create problems for the future in terms of delaying the impact of subsequent tightening actions. This is inherent in monetary policy actions to combat a recession. The only possible offset, as he saw it, was to place greater emphasis on prompt and effective action when the need for tightening reappeared. He was aware that in a recession there is always some point beyond which further ease has no beneficial economic effect. The System may have gone somewhat beyond that point in 1954, but in his judgment there was some leeway for more ease at the present time. While he agreed in principle with the remarks by Mr. Mills, he differed with Mr. Mills in that he did not think the point had yet been reached where rates were being driven down to an unnecessarily low level.

Mr. Leedy, who had been away from the Kansas City District most of the time since the last Committee meeting, said that his review of developments following his return to Kansas City late last week indicated some signs that were less pessimistic than those indicated for the nation in general. Like the country generally, the district had experienced a very substantial increase in unemployment, and that had continued since the first of the year through the date of the last release of such figures, but there was an indication that the volume of unemployment was leveling off. The rate of increase in unemployment had been generally less than during January and the early weeks of February. Department store sales through the middle of March were about 2 per cent below the volume of a year ago, while automobile registrations in January were only slightly less than a year ago in five of the States in the district and were, in fact, a little higher than last year in the State of Colorado. This compared with a decrease of about 13 per cent for the country as a whole. Total construction contracts in January were off considerably but, contrary to the situation nationally, residential construction was up, the figure being about 4 per cent. Crop and pasture conditions remained virtually ideal, with adequate rain, and the wheat crop had progressed well in the winter. Livestock prices were certainly one of the brightest things in the district. As to banking conditions, business loans by banks had continued to decline in about the same volume as last year but loans by country banks had increased sharply since the first of the year.

As to policy, Mr. Leedy thought that the accomplishment of the Desk in bringing about pretty much the degree of ease contemplated at the last Committee meeting was certainly most commendable. He had some question, however, whether very much additional ease at this time was either required or advisable. To some extent, he wished to associate himself with the views of Mr. Mills, as he understood them, except that he would not favor reducing the current degree of ease. As for himself, he would not greatly increase that degree of ease as he would question whether very much more ease would be appropriate at present. As Mr. Mills had pointed out, the level of short-term rates should be a matter of concern to the Committee. In view of the rate at which Treasury bills went this week and in view of the level of short-term rates generally, it seemed to him that a rate structure might be developing that was not in the best interests of the ultimate objectives that the Committee had in mind. He recognized the problem of the forthcoming Treasury financing and felt that the Federal Reserve should see that reserves were provided and the financing accomplished successfully. The Committee should ascertain the extent to which the commercial banks were using the reserves being made available as he did not feel that just adding additional reserves was justified unless some use was being made of them. Unless they were going to be used, he doubted whether the supplying of more reserves would accomplish any purpose that was in the interest of the System. For the time being, he would not favor changing the discount

rate or taking any other action. He would favor waiting for a while to see what adjustments occurred because of what had already been done. Up to now, the System had made some very valuable contributions and he felt that it should not overdo a good thing.

Mr. Allen stated that the economic situation had been so well covered that he would be brief. With respect to the unemployment situation, the deterioration had continued in all Seventh District States except Iowa and the situation was less favorable than the national showing. In Michigan, where unemployment was now the greatest, an advance estimate for March placed unemployment at 14-15 per cent of the labor force. There were two bright spots, however. In Kenosha, where the Rambler automobile is produced, the unemployment figure was quite low and unchanged from a year ago, and in the so-called Quad-Cities--the Davenport-Moline area where farm machinery is important--there was more, but not a great deal more, unemployment than a year ago. Mr. Allen then commented informally regarding certain observations about the trend of economic conditions which had been made at the meeting of the Reserve Bank's Board of Directors last Thursday and at yesterday's meeting of the Detroit Branch directors. He concluded his resume with comments on the forthcoming wage negotiations in the automobile industry.

Mr. Allen then said that although recession winds were still blowing heavily, they did not seem to be quite as strong as they had been. Whether they would start up again with great force, he did

not know. While he agreed with much of what Mr. Mills had said, it seemed to him that the posture resulting from two reserve requirement reductions called for a higher level of free reserves than the goal set by the Committee at the last meeting, which was $400-$500 million with a leaning toward the higher figure. In view of that posture, if for no other reason, he felt that $500 million should be the low figure for the next few weeks, and he would favor a range of $500-$600 million. He would not favor changing the discount rate at this time.

Mr. Deming referred to a remark he had heard recently to the effect that economic distress signals were not flying as strongly in the Ninth District as in other places. In other words, conditions were better than for the nation as a whole, although in some spots they did not look very good. One good area was in the Dakotas where bank debits were up 10-15 per cent. Generally speaking, agriculture was doing well and the elements of distress were centered in lumbering and mining. Also, there was some difficulty in the Twin Cities in terms of employment, and the employment situation in Minnesota generally was giving rise to some concern. At present, unemployment in the State was estimated at 130,000 compared with 90,000 last year. This represented a percentage figure of 9.7 in contrast to 6.8 in March of 1957. Unemployment claims were up roughly 50 per cent from 40,000 to 60,000 and it was stated that in the mining region in northern Minnesota unemployment was running about 25 per

cent of the labor force. On the banking side, commercial bank loans were holding up in total although business loans were off. Savings deposits generally were up; in January and February there was a very substantial rise in share accounts at savings and loan associations as well as in savings deposits at the one large savings bank and in time deposits at commercial banks. This might have some bearing on the question of consumer buying to the degree that spending was being held back by resistance to price, quality, and kind of product. There seemed to be a little more competition for loans but mostly from the insurance companies, savings and loan associations, and savings banks trying to make mortgage loans. The commercial banks still seemed to feel somewhat tight and were not pursuing loans. With regard to the comments about bank liquidity, this same problem obtained in Minneapolis, although perhaps not to the same degree as in New York and Chicago. In the circumstances, he believed that the System should overlay the banking system with another layer of reserve fat and have reserves at a higher level than at present. He agreed with Mr. Robertson, though perhaps for a somewhat different reason, that the System should make every effort to bring reserve requirements and the discount rate down as it went along. As Mr. Hayes had said, the next time--assuming there was a next time--that reserve requirements were reduced, the requirements for central reserve city banks might be reduced a little more than for the rest of the country. He concluded by expressing the view that banks still

did not feel liquid enough and that they must be encouraged to make more loans.

Mr. Mangels said that the latest available information indicated that the business situation in the Twelfth District declines a little more in February, although at a somewhat lesser rate than for the nation as a whole. In Arizona, information indicated that the employment situation had remained stable, while in the State of Washington there had been some gain and in California about a 1 per cent decline, primarily in manufacturing and construction, the latter perhaps due somewhat to inclement weather. Aircraft employment in California was down only about 800 persons from January to February and this was offset by an increase at the Boeing plant in Seattle. He was rather interested in Mr. Leach's comments about the construction picture, for the Twelfth District had somewhat the same situation. The comment was made recently that on a $7 million project in San Francisco, the bids were about 10 per cent lower than they would have been a year ago. The cost of materials had gone up but labor was producing more. A check had been made by the Reserve Bank in the branch cities of the district and a varying picture was found. In Los Angeles, building costs were about 2 per cent higher, with no increase in the efficiency of labor, while in Salt Lake City there was a decrease of about 2 to 3 per cent in building cost figures. The Salt Lake City people anticipated that the year would be good for commercial building. In Seattle, there was a decrease of 5 to

10 per cent in building costs, and construction in the first two months of 1958 was 40 per cent higher than in 1957. In Portland, contractors had been bidding for some time past on a basis which included only recovery of overhead, but now there had been some increase in building projects and prices were up about 15 per cent. It was expected that in 90 days contractors in that city would use more construction labor than at any time in Portland in the past. The lumber market generally was still not strong. However, in response to an increase in new orders for plywood which arose from earlier price reductions, plywood prices had recently been increased from $64 to the former levels of $68 and $72 per thousand. Some buyers, however, were reluctant to place any large orders because of the frequent price fluctuations. In Washington, the apple situation was not too good, with top-grade apples bringing only $3 a box, which was 60 cents below the cost of getting the apples to market. A substantial number of people in Washington had exhausted unemployment insurance benefits and were now receiving surplus foods. In the district as a whole, unemployment was up more than seasonally the first three weeks of February, mostly in California. However, the Reserve Bank director from Idaho reported that the economy there was progressing on a much better scale than for some time past. While the mining industry was in rather poor condition and a large aluminum plant had closed down, the situation with respect to agriculture and

cattle was excellent and there was a good feeling in the entire State. On the financial side, total loans for the three weeks ending March 12 dropped slightly less than in 1957, but in the commercial and industrial loan category the decrease was three times as great as in 1957. The rate of increase in time deposits had continued and was substantially ahead of a year ago. There was practically no borrowing from the Federal Reserve Bank. An analysis of the seven largest banks in the district's reserve cities showed that from March 14, 1957, to March 14, 1958, the ratio of total loans to total deposits had dropped from 56.5 to 53.3 per cent. While these ratios were down, actually total loans had increased by 3 per cent, but deposits had increased 9 per cent. The ratio of real estate loans to time deposits had declined from 52.1 per cent to 43.6 per cent. Real estate loans actually decreased only 2.7 per cent, but time deposits increased 16.2 per cent in the period. The larger banks were soliciting loans aggressively and were inviting applications for loans to pay taxes. They had had a very substantial runoff, in the consumer loan field particularly, which had not been offset by an increase in new loans. Retail sales in the district were down, as were automobile sales, and in the housing field the outlook was perhaps not as optimistic as had been thought. More investment was needed, and more spending, and there was a question whether a tax cut would increase spending or whether a large part would go into savings. There had been no

general reduction in lending rates although there were some instances where rates had been cut, particularly in the conventional mortgage field. There was some discussion of a possible cut in the prime rate and there was more and more talk about the possibility, or even the need, of a reduction in the rate of interest on savings deposits. This might occur on the first of July. The Reserve Bank's directors were still concerned about the failure of prices to recede.

With respect to policy, Mr. Mangels said it must be recognized that the Treasury was coming into the market and he would have in mind a goal for free reserves of between $600 and $700 million. He did not favor any further change in reserve requirements or in the discount rate. Rather, he felt that it would be advisable to wait a little while in order to observe the results of the actions already taken.

Mr. Irons reported that, in general terms, the slight downward trend in the Eleventh District was continuing. Probably the outstanding problem in the district--one which was getting no better--was the oil situation. Production had been cut back to an eight-day allowable basis for April and that obviously had marked effects wherever the influence of the oil industry was found. In substance, conditions in the oil industry and associated industries were probably worse than they had been for some years, and it seemed doubtful whether they were going to show very much improvement over the next few months. For the past week, Mr. Irons said, he had been

on the road talking with bankers and businessmen, and he had not found much optimism among the oil group. Basically, the problem was tied into the import problem and was not primarily a problem of the recession, although the recession aggravated it. It was essentially the problem of a high-cost producer trying to compete with the low-cost producer of a virtually identical product. Thus, the problem was long run for Texas, and it would be necessary to reappraise the position of Texas oil in the world framework. The situation of course had serious effects on State financing, for the State practically finances itself through oil. It was now estimated that at the end of this year the deficit in State finances would be about $100 million, and the State probably would have to adopt a sales tax or some other revenue measure. The oil situation was reflected also in the attitudes found in different parts of the State. The people in San Antonio were quite optimistic, there was no talk of recession in El Paso, but in Houston the people had begun to get apprehensive about depressed conditions because the economy there has more to do with oil.

Mr. Irons said that agricultural conditions in the district were basically very good, the cattle situation was strong, and retail trade gyrated pretty much with the weather. The first two weeks in March were fairly good but the third week was bad. The construction picture was quite good, with housing starts ahead of a year ago, but auto sales were down from a year ago, the decline being about 12 per

cent in four major cities. The aircraft industry was strong, with one company reporting the largest backlog in its history. The picture as to bank loans was more favorable than a year ago, Mr. Irons continued. The major banks were not sitting back and letting any loans go by them, they were looking aggressively for business, and they reported loan demand strong. The banks were resisting a fall in rates and were hopeful that there would not be a reduction in the prime rate. Talking in a rather casual way, the bankers were expressing the wish that they could get the rate down on savings deposits, especially in those cases where they had gone to a 3 per cent rate. The banks were liquid and were not borrowing from the Federal Reserve Bank. In summary, Mr. Irons said, employment was down a bit, retail trade also was down a bit, there was much uncertainty in the district, and most of the pessimism was either direct, or one or two steps removed, from an oil man.

As to policy, Mr. Irons said that he agreed with Mr. Mills' statement. He would not like to see any change in the discount rate or in the Committee's policy directive.

Mr. Erickson reported that there was little sunshine in the New England States from the standpoint of either the weather or the business situation. Insured unemployment was about the same in February as in January, and initial claims seemed to be leveling off. As to construction, the moving average was considerably behind the average for the same three months of the previous year, while

department store sales were running 3 per cent behind last year and this year's Easter business would not match that of last year. Weather had been a factor. The February poll of New England purchasing agents showed less pessimism than the January poll. Bank loans for the two weeks ending March 19 were only one-half of what they were a year ago, savings bank deposits were up 5 per cent over last year, and withdrawals were almost 8 per cent below last year.

Mr. Erickson went on to say that a meeting of the Boston Bank's Board of Directors was held yesterday, that there was a longer discussion than customary, and that there was much more pessimism than at any other meeting. The directors expressed the hope that there would be further ease in open market operations and, if conditions should worsen in April, a further reduction in the discount rate and possibly in reserve requirements. They would much prefer to see monetary policy used to combat the recession than built-in machines of inflation, such as a "temporary" tax cut which might become permanent and too much in highway construction which might be wasteful. Mr. Erickson said that he and his staff felt the same way. On policy for the next three weeks, he would favor no change in the directive or in the discount rate, and he wished to associate himself with those who suggested a minimum of $500 million of free reserves, going above that figure as necessary as long as there was not a sloppy market.

Mr. Szymczak said he felt, like Mr. Robertson, that the economy was leveling off. In his opinion it would continue to level off during the first half of the next quarter and then start upward, so that at the end of the second quarter the System's concern would be about inflation. He agreed with Mr. Mills that the Committee ought to be careful about adding reserves to the banking system. Mr. Szymczak went on to say that he thought the Board should give careful consideration, at a time appropriate in relation to the forthcoming Treasury financing, to a change in the reserve requirements applicable to banks in central reserve cities. He would not pay too much attention to the exact figure of free reserves, that is, whether it was $500 million or $600 million, but he would relate that to the reduction in reserve requirements of which he had spoken. Perhaps, if such action were taken, it would be necessary to absorb some reserves through open market operations. He had the definite feeling that prices were not going down, and he felt that a certain amount of uncertainty might, in fact, be created by a reduction in prices, for people would wait to see whether they would go down somewhat further. Thus, a price decline might have an effect contrary to what was hoped for. He thought that the System must get into a position that was realistic in order to be able to do what it could as and when the economy started moving up. He would not favor changing the discount rate now or in the foreseeable future.

Mr. Balderston said that what impressed him in the current situation were the influences not reflected in the charts we usually watch. For example, the stock market was strong in the face of the recession, which might signify not only the large short interest but a feeling that Government stimuli might be overdone and cause further inflation. Also, another twist of the price spiral may develop from the revolt in the auto union to which Mr. Allen had alluded. These skilled trades are determined that they should have a 30 cents per hour increase, and their applications for separate bargaining rights to the National Labor Relations Board cast uncertainty over the negotiations and might postpone a settlement. On the favorable side, he also detected forces that ought to be taken into account, among them the fact that there might be more downward revision of wholesale and consumer prices than had been reflected thus far in the indices. This appeared to be taking place through modifications of terms of sale, bargain prices forced upon other retailers by the discount houses, and substitutions--like chicken for beef--which may have brought about more softening in prices than the nominal prices would indicate. Also, cost reduction appeared to have been progressing apace among manufacturing plants.

Because the bottom of the cyclical valley might be closer at hand than the superficial signs would indicate and because one could not foresee at the moment which of the many doctors would

succeed in injecting his particular brand of stimulant into the economy, Mr. Balderston felt that it would be advisable for the Federal Reserve to await more enlightenment. He would favor a target of $500-$600 million of free reserves, which would, he believed, provide the banking system with slightly more reserves than the country banks customarily keep. In this connection, he had been informed by Mr. Rouse that the excess reserves of the country banks fluctuate within each month within a range of $100 to $600 million. He would favor giving the banking system just enough more reserves so that the money supply would expand no faster than the economy could put the funds to constructive use. Since the end of last November, making allowance for seasonal influences, loans and investments had gone up about $4 billion, the bulk of which had gone into securities and security loans. That represented an annual rate of increase of about $12 billion. Consequently, he would prefer to keep the present posture and observe for a little while.

Chairman Martin said that although he did not want to sound complacent, he wanted to express himself as pleased with current Federal Reserve policy. This, of course, did not mean that he considered it perfect. The policy had been about 130 days in the making and it had covered a tremendous amount of territory in that period of time. In general, he did not believe that the Committee members were far apart in their general thinking. Concededly, it is much easier

to go down than up, and that was something all ought to bear in mind in terms of monetary policy. Mr. Mills, he said, had performed a real service in pointing out that the movement might be going too fast. That might be possible, but he did not think that it could be regulated. The posture at present was one of ease and it should continue to be such. The System should not continue to inject reserves indefinitely into the market but should bear in mind what happened in 1954 and not be carried away with the preservation of ease. Logic would call for a reduction of the discount rate, but it was not possible to be entirely logical in all of these things and he would hope there would not be a rate reduction until after the Treasury financing. In about 130 days the rate had gone from 3-1/2 per cent to 2-1/4 per cent and, while logic might call for a rate of 1-3/4 per cent if viewed against the bill rate, that rate might go down to 1/2 of 1 per cent. It was his view that a change in the discount rate at the moment actually would do little except to incite speculative operations on the eve of the Treasury financing. Therefore, since a rate change would have no practical influence, it seemed to him that the proper time to make whatever logical adjustment was needed would be some time after the Treasury financing rather than just preceding it. Also, while this was not too important a point, he did not like to see the Federal Reserve on the front pages all the time with policy actions unless such actions really meant something.

If there was another discount rate reduction, that would be on the front pages, without anything having been done except to arouse speculation in the market.

Chairman Martin continued that he would like to associate himself with those who favored free reserves of $500 million or slightly higher, without a specific top figure. Free reserves of $600 million would not alarm him, but he would be alarmed if they were much in excess of that figure. That was the fine line that he thought ought to be maintained.

On the subject of bank lending, the Chairman said his own thinking on the matter was that the banks that had become "illiquid" and now wanted to get more liquidity probably were the chief offenders in the period of tight money. He doubted the desirability of forcing loans upon marginal borrowers at a time like this on the theory that it was going to promote recovery and then have them in so deep that they could not get out and would face bankruptcy as the result of having overborrowed. It was well, of course, for the banks to seek good loans, but not to have them become so aggressive due to having reserves as to persuade marginal borrowers to accept loans on the theory that it would correct a recession which actually had come about from previous inflationary excesses and would be corrected only after a period of convalescence. The economy now was in a period of convalescence, he said, and he had no idea how long it would last, but he felt that recovery might come faster if people

did not do so much tinkering. They were trying to avoid any period of convalescence, and he did not think that was possible in the world in which we are living.

Chairman Martin then said that it seemed to him that there was a fairly clear majority in favor of maintaining the present directive, postponing any change in the discount rate for the time being, and maintaining a degree of ease signified by free reserves of $500 million to slightly more than that. There were some differences of opinion but he thought that this reflected the majority view. Therefore, he would propose that the Committee accept the present directive as the consensus of the meeting, with the minutes showing whatever deviations there were around the table. He then asked whether there were any objections, and none were heard.

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 contributing further by monetary ease to resumption of stable growth of the economy, 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.

Chairman Martin then referred to a memorandum from Mr. Rouse dated March 20, 1958, which had been distributed to the members of the Committee and the Presidents not presently serving on the Committee, concerning administrative problems which had arisen in connection with the use of the discount rate as the rate applicable to repurchase agreements. The memorandum stated that although these problems had not as yet been serious nor had they interfered with the Account Manager's ability to maintain reserve availability consistent with the Committee's objectives, the spread between the market rate on short-term securities, especially Treasury bills, and the discount rate was so wide as to impair the use of repurchase agreements for the most part as an instrument of reserve adjustment. Therefore, the Account Management was considering resort to the latitude to establish a rate below the discount rate, at least in part, when the occasion suggested that repurchase agreements were the best technique to meet a particular problem. Although present authority from the Committee permits a rate on repurchase agreements

not lower than (a) the discount rate or (b) the average issuing rate on the most recent issue of three-month Treasury bills, the Account Management had previously been operating under the understanding that a rate below the discount rate should be used only sparingly, and in practice a rate different from the discount rate had not been used since November 1955 when the repurchase agreement rate was 1/8 of 1 per cent above the discount rate of 2-1/2 per cent. The memorandum also mentioned, as a matter of somewhat lesser importance, the limitation placed on Government securities eligible for repurchase agreements, namely, securities maturing within 15 months. The Account Management was not recommending any particular limitation but saw no serious objection to extending the limit from 15 months to two years and suggested that the Committee consider the question.

A memorandum from Mr. Rouse transmitting the March 20 memorandum indicated that the rate problem on repurchase agreements was not as immediate as it had been before the most recent reduction in reserve requirements, but that it might not be long before it again developed.

Mr. Rouse said that it seemed better sometimes to meet temporary problems by the use of repurchase agreements and that the question was whether the Committee would go along with a rate somewhat below the discount rate, but above the rate on Treasury bills, so that the repurchase agreement mechanism might be used

more in lieu of buying and selling bills outright in the market. Currently, the dealers were able to finance their securities for the most part at rates in the neighborhood of 1 - 2 per cent, but occasionally they had had to come to the New York banks to get overnight loans at 2-1/4 per cent or higher. The first break apparently came this morning when one commercial bank quoted a 2 per cent rate. The Account Management, he went on to say, had been fortunate on two or three occasions in being able to put out money on repurchase agreements just over the week end. If there was a material difference of opinion within the Committee, however, this problem was not a vital matter. Mr. Rouse went on to say that an extension of the 15-month maturity limitation on securities eligible for repurchase agreements also would be helpful, but again it was not a vital matter. However, he would like to see the proposal approved by the Committee. If the consensus should be to allow using a rate below the discount rate at a time when efforts were being made to keep banks out of debt, it would not disturb him.

Chairman Martin then said that under present conditions it seemed to him that this would be quite an appropriate use of the repurchase agreement mechanism. However, he said, the matter was open for discussion by the Committee.

Mr. Mills said that he would propose approval of the rate plan but would suggest taking a longer time to consider whether to accept

the proposal that Government securities having a maturity beyond 15 months be made eligible as collateral for repurchase agreements. While the Committee obviously had every desire to facilitate the Government securities market in achieving breadth, depth, and resiliency, which in a sense might be done by extending the maturity limitation from 15 to 24 months, there was a possibility that such an extension could restrict the initiative and control of the Account Management over the acceptance and denial of repurchase agreements. If a broader list of securities was made eligible, the dealers would have a greater incentive to position themselves in anticipation of a greater access to repurchase agreements and, by the same token, they might put the Desk under pressure to enter into repurchase agreements more freely than the Desk would otherwise choose to do. A broader problem that also deserved study was the relationship of this question to the "bills only" policy that the Committee had adopted, since an indirect reflection of that policy seemed to him to be found in the decision to restrict, within reasonable limitations, the maturity of the securities eligible as collateral to repurchase agreements. The further that the Account moved away from cash, even though in terms of collateral, the greater would be the chance of gradually weakening the "bills only" policy.

Mr. Irons said that he would be a bit reluctant to go below the discount rate since member banks can borrow only at the discount rate and a lower rate on repurchase agreements might be regarded as

discriminatory. Aside from this question, it seemed to him a little unusual to fix a rate at 1/4 of 1 per cent below the discount rate for special short-term certificates purchased from the Treasury, and then perhaps to accommodate nonbank dealers at a lower rate. For these reasons, he would be inclined to continue the current policy although he recognized the problems in the market. In this connection, he would not be disturbed about buying and selling bills for short term; he thought some of that might not hurt. If loans to dealers were made at less than the discount rate, it might increase that business to an extent which would be beyond emergency or necessary levels.

Mr. Allen concurred in the views of Mr. Irons. He thought that it was better not to lower the rate when it was not vital, for this might give ammunition to critics of the System who would claim that dealers were being favored as against the member banks.

Governor Robertson said he felt strongly that it would be a very bad move to start making loans to dealers at less than the discount rate for the reason stated by Mr. Allen, and he saw no need to engage in that type of operation on a large scale in the near future. Furthermore, the cash-sale basis had now been developed and that could be used. He agreed with Mr. Irons that the change would be more harmful than helpful. He would, therefore, suggest that the Committee take no action at the moment and that all concerned study the matter carefully.

Chairman Martin said that, with the bill rate at its present level and the discount rate at 2-1/4 per cent, the effect would be--if the repurchase agreement mechanism was used at all--to penalize dealers if they wanted to use this instrument. There might be a question whether to use repurchase agreements at all, which would involve a different study, but in terms of logic he would go along with the comments of Mr. Rouse. However, since there was a difference of opinion within the Committee, he would suggest that the matter be carried over until the next meeting.

Mr. Rouse made the further comment that some of the remarks had left a very strong inference of favoritism toward the dealers which he did not think was valid. He then said that the making of repurchase agreements is an open market operation conducted under section 14 of the Federal Reserve Act; while repurchase agreements might be loans from the standpoint of the dealers, from the standpoint of open market operations they are security transactions. Primarily, they are operations to facilitate the Committee's policy. He thought it was more confusing to the market to go into and out of the market through outright sales and purchases, and he noted that in the past the Committee had wanted the Account Management to stay out of the market as much as possible. The rate suggestion, he said, arose from no other source.

After Mr. Leach commented that, if a vote had been taken at this time, he would have voted in favor of the rate proposal, Mr.

Thomas remarked that free reserves fluctuate widely from week to week and that it is very convenient to use the repurchase agreement in order to take care of those temporary fluctuations, for example, around the end of the week. The arrangement, he said, actually tends to benefit the banks because it relieves them of the necessity of borrowing. He considered the repurchase agreement ideally suited for that purpose and felt that the rate should be related realistically to current conditions in the money market. With respect to the current maturity limitation, it was his recollection that the Committee at first thought that the limitation should be within one year but that the 15-month limit was fixed because the Treasury at some times issues certain securities with a 13- or 14-month maturity. Later, the Comptroller of the Currency made a ruling which stipulated 18 months as the maximum maturity for Government securities eligible for repurchase agreements by member banks without the usual limit on loans to one borrower. Accordingly, he suggested that the Committee might want to consider fixing the same maximum maturity as fixed by the Comptroller.

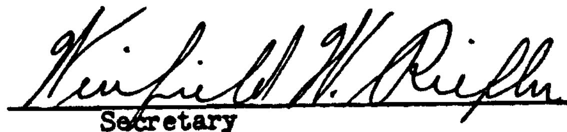
Mr. Hayes stated that he had a great deal of sympathy with what Mr. Rouse and Mr. Thomas had said. He was rather puzzled, he said, that some of the Committee members seemed to feel this was a dubious or undesirable thing, because the authority for a lower rate had actually been in effect for a long time.

Chairman Martin concluded the discussion by stating that in view of the differences of opinion around the table it would seem advisable for everyone to think about the matter further and then to consider it again at the next meeting of the Committee.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, April 15, 1958, at 10:00 a.m.

In this connection, Chairman Martin said he had been asked about the tentative schedule of Committee meetings for the balance of the year. Looking at the calendar, it seemed to him that for planning purposes it would be quite in order to think in terms of a meeting every three weeks for the remainder of the year. At this point, the only question would seem to be the appropriateness of a meeting on the 23d of December.

Thereupon the meeting adjourned.



Secretary