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, January 27, 1959, 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

Messrs. Allen, Johns, and Deming, Alternate Members of the Federal Open Market Committee 1/

Messrs. Bopp, Bryan, and Leedy, Presidents of the Federal Reserve Banks of Philadelphia, Atlanta, and Kansas City, respectively 1/

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Sherman, 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. Kenyon, Assistant Secretary, Board of Governors
Mr. Molony, Special Assistant to the Board of Governors
Mr. Koch, Associate Adviser, Division of Research and Statistics, Board of Governors
Mr. Keir, Acting Chief, Government Finance Section, Division of Research and Statistics, Board of Governors

1/ Messrs. Allen and Leedy joined the meeting at the point indicated in the minutes. Mr. Baughman also entered the room at that time.

Mr. Latham, First Vice President, Federal Reserve Bank of Boston
Messrs. Roosa, Jones, and Tow, Vice Presidents of the Federal Reserve Banks of New York, St. Louis, and Kansas City, respectively
Messrs. Baughman and Einzig, Assistant Vice Presidents of the Federal Reserve Banks of Chicago and San Francisco, respectively
Mr. Gaines, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Anderson, Economic Adviser, Federal Reserve Bank of Philadelphia
Mr. Parsons, Director of Research, Federal Reserve Bank of Minneapolis
Mr. Brandt, Economist, Federal Reserve Bank of Atlanta

Chairman Martin noted that Messrs. Allen and Leedy had been delayed because their train was running behind schedule and that Mr. Latham was attending the meeting in the absence of Mr. Erickson.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on January 6, 1959, 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 January 6 through January 21, 1959, and a supplemental report covering the period January 22 through January 26, 1959. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Mr. Rouse reported that the money market had been steadily tight since the last meeting of the Committee. Federal funds had traded at the discount rate on every day, although some trading at rates slightly below the discount rate was reported on a few days, and market rates of interest on Treasury bills had increased sharply. Three-month bills traded yesterday at 2.94 per cent, and six-month bills went at an average rate of 3.34 per cent in yesterday's auction.

The reserve figures had not worked out exactly as planned, Mr. Rouse said, principally because of erratic movements in float. In spite of average free reserves in one week, however, the average for the full period since the last meeting had been reasonably close to what he believed the Committee intended. In any event, the central money market had been consistently tight; the temporary buildup in reserves was concentrated at country banks while the New York and Chicago banks carried large basic deficiencies steadily.

The new securities issued in the Treasury's cash financing earlier this month had not behaved well in secondary trading. Although the new bonds and notes were attractively priced and were satisfactorily oversubscribed, a volume of offerings reached the market immediately after the books closed and drove both issues to discounts from issue price. A principal influence behind this development was widespread anticipation of higher rates of interest over the coming months. It was generally anticipated that the discount rate would be increased in the near future, and the prospective demands for capital suggested steady pressure on rates.

Mr. Rouse commented that the Treasury was planning to announce financing terms later this week for the refunding of its

February maturities; meetings with the advisory committees were scheduled for Wednesday and Thursday. After completing this refunding, the Treasury probably would not have to return to market again until late March or early April, when cash financing would be necessary. Allowing 10 per cent attrition on the February refunding, it was estimated that the Treasury would find it necessary to borrow about $6 billion in April and May. If attrition should be larger than estimated, however, it might be necessary for the Treasury to return to market a bit earlier and for larger amounts. The Treasury was faced with a difficult decision in pricing its refunding securities. In the present market atmosphere, it seemed likely that market yields would tend to rise to whatever level the Treasury set on its new issue, so that attempts to achieve a successful exchange through attractive pricing might be self-defeating.

Mr. Rouse went on to say that present projections suggested a need for reserves during the next three weeks, if an even keel were to be maintained, but that sales from the System Account to absorb reserves would then be necessary in subsequent weeks.

Mr. Robertson asked if the 10 per cent attrition mentioned by Mr. Rouse referred to the total of February maturities or to the publicly-held portion, to which Mr. Rouse replied that he had in mind that 10 per cent of the total maturities, or $1.5 million, might be the maximum attrition, while it might be possible to hold attrition to 10 per cent of public holdings, or $900 million.

In response to an inquiry by Chairman Martin regarding the market attitude with respect to the possibility of an offering of 10-year bonds in the current refunding, Mr. Rouse said that when Under Secretary of the Treasury Baird met with the dealers in New York last week the market atmosphere was quite bad and dealer comments did not encourage the idea of an issue in the 10-year range. While some extremely pessimistic comments suggested that the Treasury should confine its offering to two issues in the under-one-year range, it was felt generally that the Treasury could attract as much as $2 billion into a note in the three-to-five-year range. There appeared to be no interest, however, in anything beyond five years. Mr. Mangels stated that he had heard reports from banks in San Francisco to the effect that there was no interest in a longer-term obligation and that attrition would be quite high unless the Treasury offering was most attractive.

Chairman Martin then asked what the one-year rate was at present, and Mr. Rouse responded that although the market rate was in the neighborhood of 3-5/8 per cent, the Treasury should pay 3.70 to 3.75 per cent on a one-year obligation. He added that beyond two or three years the rate curve was virtually flat at 4 per cent. Therefore, if the Treasury offered a security in the three- to five-year range, it probably would have to carry a 4 per cent coupon and be priced at par or a small discount.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period January 6 through January 26, 1959, were approved, ratified, and confirmed.

In supplementation of the staff memorandum distributed under date of January 23, 1959, Mr. Young made the following statement with respect to economic developments:

> Major sectors of domestic demand for goods and also of output have continued to show advance. Given the momentum of expansive forces, advance seems likely to proceed in the months ahead, with stimulus emanating particularly from active consumer buying and home purchasing, business inventory reaccumulation, and more active investment, business and governmental, in fixed facilities. The most recent information from abroad for industrial nations of Europe confirms cessation of decline in activity and the beginning of recovery. While steel and textile output continue to be depressed, steel consumption at least appears to exceed output, a condition not likely long to persist. U. S. exports to Europe showed significant pickup during fall months, but downward adjustment in purchases of U. S. goods by the less-developed economies has continued.
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> The highlights of recent domestic and foreign developments are well detailed in the staff memorandum. My special comments will be concerned with recent employment and unemployment trends.
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> Employment gains have lagged output gains in this recovery, as they usually do. The lag, however, has been greater than in preceding postwar recovery periods, and the level attained by unemployment has been both higher and somewhat more sluggish in its response to rising activity. Thus, while real GNP and industrial production are currently both within striking distance of earlier highs, nonfarm employment--up 700,000 from its recession low--has regained less than a third of its recession loss of 2.4 million jobs.

Since September, there has been little evidence of any extensive general rehiring of workers other than for seasonal reasons. In the two preceding postwar recession-recoveries, employment stabilized for a number of months after the recession bottom, but once recovery set in, employment increases were not halted until a new peak was reached.

What accounts for the slower pickup in employment in this cycle than in preceding postwar cycles? Several factors may be mentioned.

(1) Productivity increases in manufacturing industry have apparently been higher this time than in the earlier recovery periods, reflecting very high modernization investment in preceding boom as well as the greatly expanded industrial research and development programs of the boom period. For instance, automobile output in December, while only 4 per cent lower than in December 1956, provided one-fifth less in production worker employment than two years earlier. The railroads, while carrying about as much freight as in late 1957, provided 10 per cent less employment. Similarly, the coal mines have been about equalling output levels of a year ago with about 15 per cent fewer employees.

The larger productivity gains of this recovery period may also be a factor in recent stabilizing of average hours of work per week in all manufacturing industry. Virtually all of the recession decline in hours worked had been recovered by last September and there has been no further gain since. In earlier postwar cycles, hours of work continued to increase long after this stage of recovery. It is important here to note that, since 1955, there seems to have been a downward drift in the length of the workweek.

(2) It may well be that labor cost increases of recent years have made management more cost conscious than in any earlier period and that greater efforts are now being applied to limiting employment and overtime increases in order to keep costs down. Also, postwar growth in fringe benefits now makes record-keeping costs and benefit liabilities rise rapidly as new workers are hired, and this would operate to slow down additions to work forces.

(3) In machinery and other industries associated with investment outlays, employment has shown little recovery rise because expansion in fixed investment has not yet shown marked revival. In the past, expansion of nonproduction worker employment, associated especially with research and development, has been correlated with rising investment. In the preceding two cycles, business investment had shown much more revival than has been shown up to the present point in this cycle.

(4) Nonmanufacturing employment, which had shown strong growth through the whole postwar period, with only modest slackening of expansion in the two preceding downturns, declined moderately in this recent recession and has shown little expansive tendency in recovery. Judging by the rise in nonindustrial GNP since last spring, as sharp or sharper productivity gains have been experienced in nonmanufacturing activities as in manufacturing industries during this recovery period. Presumably these nonmanufacturing activities are digesting earlier postwar increases in their working force.

(5) The industries in which recession declines in employment have been highest and greater than in preceding recessions have been durable manufacturing, railroads, and mining. These industries have been subject to a secular decline in postwar years in employment of semi-skilled workers, with reductions in semi-skilled jobs more accentuated in each succeeding recession-recovery period. This means, of course, a sizable problem of transfer of employment to other gainful activities, a problem that can be only resolved slowly.

With the rise in employment opportunities lagging, that is to say, showing slower advance than in preceding postwar recoveries, what about the unemployment problen and prospects over the months ahead?

Unemployment has been higher all through this recession-recovery period than in earlier postwar cycles. It reached a seasonally adjusted high of 7.5 per cent of the labor force in the summer and declined to about 6 per cent subsequently. In numbers of unemployed, the decline has been about 1 million workers.

While unemployment has been higher than in preceding cyclical dips, the general pattern of rise and decline has not been dissimilar to that of preceding cycles. The seasonally adjusted unemployment did not fall below 4.5 per cent of the labor force in the 1949-50 recovery until about 12 months after recession ebb, and in the 1953-54 recovery this rate was not pierced until after 10 months. In the Korean boom, the rate fell to under 3 per cent, but in the 1955-57 boom, 4 per cent constituted a floor and most of the time the rate fluctuated just above 4 per cent.

In the two earlier postwar recoveries, employment rose and unemployment declined at the same time that sizable additions were being made to the working force. In the recent recession, part of the rise in unemployment was due to the large number of secondary earners who entered the working force when primary earners had their pay reduced or lost their jobs. The recent decline in unemployment has reflected in part withdrawal from the work force of many of these secondary earners as well as withdrawal of some older and younger workers for want of job opportunities.

Recovery in job opportunities has been uneven for different groups of workers. Younger workers have faired better than older workers, and females better than males. Relatively high rates of unemployment persist for durable goods workers, semi-skilled and unskilled workers, and for nonwhite workers. Among those with long duration unemployment, durable goods workers, miners, and railroad workers are numerous in relation to their role in the labor force.

Recovery re-employment has also been uneven geographically. In California, unemployment has fallen to reasonably normal levels. In Michigan, it has fluctuated only seasonally and unemployment is currently well above last year's rates. At midsummer, the number of substantial surplus labor markets was 89 out of 149, and by the present month the number of such markets had declined by only 13. The concentration of substantial surplus markets continues to be in the east and midwest.

Two observations about current labor market conditions seem warranted from this review. First, on the supply side, a conjuncture of secular and cyclical forces seems to have contributed to the present volume and composition of unemployment. As we have noted, a high proportion of the unemployed is concentrated in durable goods and related industries, making the continuing unemployment problem a cluster of localized problems rather than a general problem. But this may also work to make unemployment slack linger on. We should not be surprised to hear the terms "technological unemployment" and "labor immobility" used more frequently again to describe a possibly slower decline in the unemployment rate than featured the earlier cycles.

Second, on the demand side, the labor market in the recent period has, on the whole, been experiencing a less vigorous demand for labor than in the comparable phase of the other postwar cycles. But as consumption expenditures rise further and as capital expenditures begin actively to expand, demand for labor will surely strengthen, and particularly in the durable goods areas where unemployment is now concentrated. Gains in worker productivity are typically high in the recovery phase of the cycle and then slow down in the expansion phase. Gains in output in the expansion phase increasingly require utilization of older facilities and these facilities take more manpower per unit of output.

How fast available manpower resources will be taken up in the period ahead depends on the pace of further expansion in aggregate demand and especially of durable goods demand and on the strength of competitive responses, especially price response, in meeting additional growth in demand. If expansion in money demand is dissipated in price advance, the employment impact will, of course, be lessened.

Taking into account the relatively larger pool of unemployed manpower at this stage of the precent cycle compared with earlier postwar cycles, it seems reasonable to observe that manpower availability will not become a limiting factor on the further increase in total production nearly so soon as it did in the two preceding cycles. This is clearly a bullish factor for the length of the expansion period that now seems to be beginning.

In our presentation at the last meeting, we suggested that an increase in the money supply in the period ahead somewhat above the average of recent years might be appropriate. This suggestion was on the basis of prospective manpower and other resource availabilities. If prevailing inflationary and speculative clouds can be effectively dispersed by a firm Federal fiscal policy and a firm monetary policy, this problem of the proper rate of monetary expansion for a growth period without inflation will become an urgent matter for the Committee's consideration.

During Mr. Young's statement, Messrs. Allen, Leedy, and Baughman joined the meeting.

Staff memoranda on the outlook for member bank reserves and on the outlook for Treasury cash requirements had been distributed under dates of January 23 and January 26, 1959, respectively. With further reference to financial developments and credit policy, Mr. Thomas made the following statement:

In view of current trends and potentials, prospects point to continued economic expansion for the next year or more. The monetary basis for such expansion is already largely established. Forces mostly <u>outside</u> the area of bank credit are likely to determine whether demands for consumption and investment will be of such magnitude and nature as to reduce the volume of unemployment, whether there will be sustainable growth, whether persistent pressures on prices will produce creeping inflation, or whether speculative commitments will create a bubble on a boom that will burst at an early stage.

The principal forces that may determine the course of events include, first, the decisions of consumers as to the rate and nature of their expenditures. Consumer incomes, together with accumulated savings, appear to be adequate to permit further growth in consumption. Incomes will be supported or enlarged by the high level of Government spending and by other elements of expansion now in process.

The magnitude and nature of consumer expenditures, however, will be influenced by the second important set of forces, namely, the pricing and marketing policies of business. Will consumers be attracted by the goods and services offered at the prices established? Will producers, including labor, continue to endeavor to raise their prices or will consumers be offered some of the benefits of productivity increases? Will competitive forces under the impetus of unutilized resources halt the rising tendencies in finished goods prices and perhaps bring about some downward price adjustments? Unless prices are kept down, can there be sustained growth in consumption?

Sustained long-term growth in real incomes depends primarily upon continued improvements in productivity per person employed. This requisite for growth cannot be obtained merely by increasing consumer incomes through programs of Government spending. Such measures may even retard productivity increases.

The next element needed for continued growth and to a considerable extent for productivity improvements is an appropriate volume of investment in equipment, plants, other structures, and means of transportation. Pricing can also be an important factor in encouraging investment, as well as consumption.

Finally, it must be recognized that investment is not possible without saving. Saving depends on the decisions of individuals and businesses. Most savings are channeled into investment through financial institutions. The commercial banking system is only one of these channels and by no means the dominant one, although it is of marginal importance. The creation of money through the expansion of bank credit can at times, by stimulating spending and investment, bring about increased production, but it cannot be a substitute for saving in real terms or for extended periods. True saving requires the production of goods that are withheld from consumption.

This analysis leads to the conclusion that further recovery to reasonably full utilization of resources and then continued growth at a sustainable rate will depend upon individual decisions with respect to pricing and buying and investment and saving and do not now need any additional stimulants through fiscal or credit policies. There is danger that the forces already at work, including expectations as to the future, may induce commitments of a speculative or otherwise unsustainable nature or may lead to pricing policies that will first contribute to inflation but ultimately discourage buying. Tendencies of this nature could be aggravated by ready availability of credit to finance speculative ventures or discouraged by credit restraints.

Turning to consideration of the present credit situation, it seems clear that further stimulants to credit expansion are not necessary. The forces that have been mentioned are not being held back by inability to obtain financing. Credit demands and the availability of funds for investment are adequate--in the aggregate--to support further expansion and even encourage excessive speculative commitments. Businesses and individuals already possess a substantial amount of liquidity.

Banks can meet a considerable volume of short-term credit needs of business through the shifting of assets or by temporary borrowing of any needed reserves. This may mean some increase in aggregate borrowing at the Reserve Banks. A net increase of less than half a billion dollars, leaving out temporary variations, could provide all the reserves needed for adequate growth in the money supply during the next year. Under the conditions likely to exist, any additions to reserves should be supplied in this manner, which imposes restraints, rather than through open market operations.

Financial problems facing this country, however, are not as simple as this. They are complicated by the existence of a heavy Government deficit and a formidable task of debt raising and refunding in a period of incipient boom in the economy. The prospective requirements of Treasury financing under the new Budget are described in a separate memorandum. Although the Treasury will be able to retire debt on balance between now and the end of June, the timing of receipts and expenditures and shortly-spaced maturities will require frequent and substantial operations to raise new cash, as well as for refunding. In the latter half of this calendar year largely for seasonal reasons, there will be a deficit and further heavy cash borrowing needs, even if the projected balance is obtained in the budget for fiscal 1960 as a whole.

Treasury borrowing, therefore, will continue to exert demand pressures on the available supply of lendable funds. At the same time Treasury expenditures will supply funds that could help finance economic expansion and reduce needs for private borrowing. The course of interest rates and of other economic pressures will depend on how much private borrowing demands increase.

Developments in the money and Government securities markets since the turn of the year largely reflect the pressures and anticipations arising from Treasury financing operations in process and in prospect. The Treasury has just raised about $3.5 billion of new cash, much of which has not yet been distributed to firm holders. A major refunding operation is imminent. Some new cash borrowing--at least through increased bill issues--is likely to be needed this quarter and a considerable amount in April.

It is no wonder that rates on Treasury bills, which did not show the customary increase in December, have increased in January, instead of declining as they usually do. Nor is it surprising that bond yields in general have risen to new high levels. These changes represent adjustments that were inevitable sooner or later under current prospects. It is more helpful than harmful to the attainment of a well balanced market that they have occurred. Continued strength in the stock market has also been a source of pressure on the bond market. There has been a further widening of the margin between stock and bond yields.

Bank credit trends in general have not been startling and show no particularly strong private credit demands. Credit increases in December conformed closely to the usual seasonal pattern. Currency outside banks showed slightly less than the usual seasonal increase, while demand deposits remained unchanged on a seasonally adjusted basis. The total money supply--seasonally adjusted--was 2 per cent or more above the peak level of mid-1957, while the turnover of demand deposits was still below the level of that period. In addition time deposits were about 12 per cent larger.

In the first two weeks of January, total loans and investments of city banks declined somewhat more than they had in the same period of other recent years except 1958. In the third week, however, according to preliminary figures, holdings of Government securities increased by $1 billion, reflecting payment for the new Treasury notes, and loans showed little change. A smaller than usual decline in commercial loans was offset by an increase in loans on securities. Ordinarily loans and investments have continued to decline in that week. In addition to the increase in U. S. Government deposits, there appears also to have been a substantial increase in private demand deposits in the third week, following moderate declines in the two previous weeks.

Reserves released by after-Christmas seasonal factors have been absorbed by a reduction of nearly $900 million in System holdings of bills and of repurchase contracts and a decline in float. Member bank borrowings, on a weekly average basis, have been as high as $700 million, although in the past week they have averaged around $450 million, reflecting a larger than usual mid-month float increase caused by weather conditions. There is no evidence that the low discount rate is encouraging credit expansion on the basis of borrowed reserves.

Figures for the current week include the effects of a large increase in required reserves due to payments for the new Treasury securities through tax and loan accounts and of some decline in float, only partly offset by a continued return flow of currency, and will apparently show net borrowed reserves of well over $100 million. Indications are for net borrowed reserves of over $300 million during the next two weeks, in the absence of System operations. If the usual seasonal decline in private demand deposits continues, along with the reduction in Treasury accounts from the present increased level, there will be net free reserves during the last part of February and the first half of March, which should be prevented by System operations.

Unless strong demand pressures for bank credit should develop, the situation will probably be one calling for only moderate adjustments. It might be advisable to let varying pressures that develop in the market bring about their own adjustments with a minimum of System intervention, except for large changes in required reserves caused by variations in tax and loan accounts. Under such a procedure, any credit expansion would bring about a tightened reserve situation and credit contraction would result in an easier money market.

Chairman Martin stated that the next meeting of the Federal Open Market Committee would be held on February 10, 1959, with the annual organizational meeting of the Committee on March 3, 1959. The views expressed during the discussion today therefore should be made with that schedule in mind.

Mr. Hayes then made the following statement with regard to the business outlook and credit policy:

> It is encouraging to note that business activity has continued to expand at a vigorous pace and that this trend seems likely to be maintained in the coming months. This gradual recovery, marked by restrained optimism rather than exuberance, is more likely to bring sustained growth than a more rapid advance which would tend to generate exaggerated expectations and speculative tendencies. At present the stock market is the only area where such tendencies are clearly in evidence.
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> Favorable business influences include the likelihood of some restocking by retailers and wholesalers after the good Christmas sales experience, the apparent cessation of inventory liquidation at the manufacturing level, and the prospect of well-sustained residential construction. On the other hand, the vigor of automobile demand is still an open question, and the accelerated steel purchasing which has already commenced in anticipation of a possible strike is of course only a short-run stimulant. One distinctly disturbing feature is the prospect for seasonal increases in unemployment in January and February, despite the recovery in output. Persistent substantial unemployment is disturbing both because of the economic losses involved and because of the possibility that it may give rise to unsound proposals for artificial remedies. Another fundamentally disturbing element, of course, is the serious doubt whether a balanced budget can really be achieved in the next fiscal year.
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> There is a gratifying degree of price stability in evidence at the moment, despite the obvious inflationary dangers on the horizon. For example, the wholesale price index was unchanged in December at a figure lower than that recorded at the bottom of the recession. Declines have been reported for

most sensitive commodity prices, and the consumer price index has receded slightly. The case for expecting inflationary forces to break out must therefore rest essentially on prospective financial and collective bargaining developments, rather than on excessive acceleration of business or consumer spending. The 5 per cent wage increase now being granted by the oil industry seems overly generous in relation to national productivity gains and will not help other industries to "hold the line" in the next few months.

As for credit developments, the preliminary estimates for all commercial banks in December show an above-average growth of loans, with real estate loans continuing to expand rapidly and with business and security loans increasing seasonally. Fragmentary January data for reporting member banks suggest, however, that rather heavy seasonal repayments are now occurring. Loan demand can still not be labeled ebullient; and I might add that the New York banks feel under sufficient pressure to be rather cautious in their lending policies.

Viewing the Treasury's financing program for the rest of this fiscal year, it appears likely that, after the mid-February refunding, there will be a lull of something over a month before substantial cash borrowings, totaling around $6 billion, are required in April and May. Presumably the announcement of the April financing will be made late in March.

With respect to credit policy, the economic situation does not call for any change at the present time. Open market operations, in conjunction with the Treasury's financing activities, have produced a reasonably tight money market atmosphere. I think we should aim for about the same degree of tightness as we have had, as evidenced by the feel of the market, and there would seem to be no reason to change the directive.

The only area of doubt concerns the discount rate. With market rates now well in excess of 2-1/2 per cent, we are close to the point where a 3 per cent discount rate would seem desirable on technical grounds alone. However, we are not free agents for the next few weeks, for the prospective Treasury announcement due this Thursday strongly indicates the advisability of maintaining an even keel from now until the refunding is completed and the market has had a short time to digest the new issues. Moreover, subscribers to the recent Treasury cash offerings might look upon a rate increase at this time as a sign of bad faith. Since the market is expecting a 1/2 per

> cent rate rise, and only the timing is really in doubt, our failure to raise the rate at the present time should not prevent a realistic pricing of the securities to be offered in the refunding. And there is always the danger that an increase now could be interpreted as a signal of intensified restraint, creating fears of a progressive rise in interest rates over the coming months, and thus adding to the Treasury's difficulties and perhaps inviting political trouble, especially if the prime rate were to move up as a consequence. Finally, there is some advantage in letting the dust settle a little longer on the recent international monetary developments before moving our discount rate higher. In short, the combination of these factors points to late February or early March as the first opportunity for a rate change. Action at that time is indicated in the absence of unforeseen developments in the interim.

Mr. Irons said that in the Eleventh District the economy was moving along at a high level. While not too much higher than it had been, the strong and favorable level of activity was spread through the various sectors of production and trade. Unemployment was down a little in the last month, and generally speaking conditions were good. A strong demand for bank loans was reported, with the implication that bankers in the district were trying to hold back and could increase their loans further if they were so inclined. An increase in activity at the discount window was being noticed, with some of the larger reserve city banks coming in occasionally, which seemed to bear out the reports regarding the strength of loan demand. There appeared to be more confidence with regard to the continuation of economic and business expansion and also, unfortunately, about the inevitability of inflation. People seemed doubtful about the possibility of balancing the Federal budget. It was difficult to see how this attitude could be dispelled until something actually was done to convince the public that perhaps there was not going to be inflation.

As to policy, Mr. Irons said that he was in something of a quandary. He felt that open market policy should continue to be as restrictive as it had been, since he saw no argument for any relaxation, and whenever there were doubts he believed that they ought to be resolved rather deliberately on the side of restraint rather than ease. In these circumstances, the Manager of the Account must rely very heavily on his impressions and sensitivity to the market. The forthcoming Treasury refunding operation might be unusually difficult and result in a large amount of attrition, with the result that the Treasury then would be looking for money again rather soon. The Treasury seemed likely to be in the picture rather continuously, and it was hard to reconcile the developing economic situation with the needs of the Treasury. Perhaps the most that could be done in the next two weeks would be to continue monetary policy about as it had been, in no event less restrictive and with any deviations on the more restrictive side whenever there was doubt.

Turning to the discount rate, Mr. Irons said that technically it should be raised. While he did not think that it made a great deal of difference, he would lean on the side of acting sooner than the month of March, particularly because this would not be a startling change. As he had noted, the Treasury might have to come to market again early in March if attrition on the forthcoming refunding was very high. In substance, while he did not feel strongly one way or the other, he had some question whether the System ought to wait for a considerable time before it gave confirmation to the prevailing interest rate structure by an increase in the discount rate.

Chairman Martin inquired of Mr. Irons whether he thought it would not be wise to change the rate before the next meeting of the Open Market Committee, to which Mr. Irons replied that he had not meant to suggest by his remarks that it necessarily would be unwise. If in the judgment of the directors of a Reserve Bank there should be an increase in the discount rate before the meeting on February 10, he would not object. Meetings of the directors of several of the Reserve Banks were scheduled shortly after the next meeting of the Committee on dates when it appeared that the Treasury refunding would not yet be completed. Consequently, he did not know whether it would make much difference if discount rate action were deferred until such time.

Mr. Mangels said that the situation on the West Coast was somewhat similar to that reported by Mr. Irons for the Eleventh District. Business conditions continued to show strength and were at quite a good level. As usual at the end of the year, bankers and businessmen had engaged in forecasting, and almost without exception the opinions reflected strong confidence in the progress of the economy. At the same time, no more than one or two of the forecasters expressed a feeling that boom conditions were in prospect for this year. Defense procurement and space programs of the Government now being developed in the Twelfth District continued to provide major support to the economy. This tied in with the increased consumer spending that the district had experienced. Preliminary data for December revealed that employment reached a new record, while unemployment was down to 5.4 per cent, about the level of a year ago. Through the first two weeks in January, unemployment figures were running a little lower than year-ago levels. The greatest improvement was attributable to durable goods manufacturing, the sector of business hardest hit during the recession. Metals and mining activity had now leveled off, while lumber showed increases in both orders and prices. Farm income prospects, however, were not as good for this year as they had appeared to be in the early part of 1958. Automobile registrations in the State of California in December were up 40 per cent over November, thus producing the highest month since September 1955, and scattered reports through mid-January indicated that improvement had continued. Department store sales in the first two weeks of January continued at the record December levels, 10 per cent over a year ago, and home appliance sales were up 25 to 30 per cent.

Turning to banking developments in the district, Mr. Mangels said that demand deposits during the three weeks ended January 14 showed an increase larger than the increase during the corresponding period last year. Time deposits likewise rose, although the rate of increase had been declining in recent periods. All categories of bank loans except real estate loans reflected declines, though not to the extent anticipated; bankers reported that repayments had not been as heavy as they expected. During this same period district banks sold about $135 million of Government securities, and their purchases and sales of Federal funds on January 14 were almost in balance. The Reserve Bank had been experiencing a slight increase in member bank borrowing; as of Thursday, January 22, five member banks, including two reserve city banks, were borrowing a total of about $30 million.

With respect to policy, Mr. Mangels commented that a principal factor during the next few weeks would be the heavy Treasury financing, on which there was likely to be heavy attrition unless the Treasury priced its offering on a very acceptable basis. Under those conditions, he felt that the Desk should be given wide discretion to base its operations pretty much on day-to-day market conditions, although he hoped that it might be possible to maintain net borrowed reserves of around $100 million. The directive seemed satisfactory. As to the discount rate, he hoped that no action would be taken until around the end of February or the first part of March. The next meeting of the San Francisco directors was to be held on February 11, with the succeeding meeting on March 11, which meant that if discount rate action were taken prior to the latter date the San Francisco Bank was likely to lag behind. In his opinion, the San Francisco directors would be favorable to an increase in the rate at that time.

Mr. Deming said that the upward trend continued in the Ninth District, although muted by the seasonal laws. After commenting that he had been impressed by the presentations of Mr. Young and Mr. Thomas, he went on to say that the Minneapolis Bank had spent considerable time in the last three weeks looking into longer-run prospects for the economy and had come to conclusions not appreciably different from those given or implied by those papers. Therefore, for the immediate long-run, if that was not too paradoxical an expression, he believed that appropriate monetary posture should produce a drag, although not a strong and positive restriction. This would be similar to the position taken by Mr. Thomas.

For the next two weeks, Mr. Deming felt that there should be no appreciable change in pressure and no overt action. Following that period, however, he believed that it would be appropriate to adjust the discount rate upward to put it in line with the market. While he did not think the exact timing of such action made a great deal of difference, it was his view that the rate should be increased with reasonable promptness after the completion of the refunding operation. His preference, he thought, would be not to do anything until the refunding was completed.

Mr. Allen said that with recovery under way for nine months it was now apparent that a number of Seventh District areas had lagged behind the nation, partly because of strikes in the automobile, farm machinery, and construction machinery industries, but more so because producers' goods are relatively important in the district. Machinery of all types and construction equipment accounted in 1957 for 43 per cent of manufacturing employment in the district's five-state area, compared with 28 per cent for the nation, and the typical pattern in a recovery is for the district's type of industry to improve less rapidly than others. However, reports indicated that a large backlog of proposed heavy construction work was building up, mainly in utilities and manufacturing. Engineering News Record indicated backlogs of proposed projects at the end of 1958 at a new high, amounting to 10 times the contracts awarded during 1958, a comparison that held true for both the United States and the Midwest. If the current business expansion should follow the pattern of earlier recoveries, the lags in Seventh District recovery would give way to rapid increases in output and employment later in 1959 and in 1960.

In the three post-Christmas weeks ending January 17, Mr. Allen said, district department store sales were 3 per cent higher than a year ago, compared with a 4 per cent increase nationally. The district's larger banks had experienced tighter money market conditions since the end of the year, in large degree because deposits declined more rapidly than loans were paid off. At Chicago banks, the loan decline had been less than in either 1958 or 1957. Steel ordering was picking up smartly, doubtless due in part to the possibility of a strike next summer, but also due to the sharp decline in inventories in 1958. The district's steel mills were operating well above the national average, the rate in Chicago being 85 per cent and in Detroit 96 per cent.

Continuing his comments on district developments, Mr. Allen said that a January survey of country bankers indicated a strengthening of interest in farm real estate, with over half the bankers in Iowa and Illinois stating that the current trend of land values was up and about one-third of the bankers in other farm areas making the same report. These proportions were larger than in other recent surveys, and almost no bankers reported a downward trend. The demand for agricultural loans remained strong through December, especially in cattle-feeding areas, with the volume of new loans continuing to exceed year-earlier levels.

With respect to the automobile industry, Mr. Allen commented that sales of new model cars through the first 10 days in January were high enough to be a pleasant surprise to the auto manufacturers and dealers. During December, approximately 490,000 cars were retailed in the 26 selling days for an average selling rate of better than 18,800, and for three weeks of that month Chrysler Corporation was handicapped by strikes that eventually choked off all production. Studies have indicated a typical seasonal decline in sales between December and January of 10 per cent, so when January opened at a lower sales rate than December it was not a surprise. In fact, sales during the first 10 days of January were a slightly less than seasonal 9 per cent below sales during the similar period in December and a significant 5.5 per cent above sales during the opening period in 1958. While some industry observers believed there was no question about public acceptance of the new models, a survey made last week by the Wall Street Journal mentioned that the dealers felt it would be necessary to wait until spring for the real market test. However, even those who thought that only March and April would tell the story were optimistic about 1959 bettering the dismal showing of 1958. As of January 10, the stock of unsold new cars totaled 614,000, more than 100,000 below the figure at the same time last year. When based on the selling rate of early January, this represented a 39.6 days' supply, but a calculation based on the average selling rate of the last three periods and the January 10 stocks would indicate a more acceptable 33.5 days' supply. Since early October, Mr. Allen noted, automobile men had had one obstacle after another placed in the way of production plans. When strikes within the industry were settled, those at plants of suppliers of strategic parts remained a problem, Chrysler being particularly vulnerable because of its greater dependence on outside suppliers. With Chrysler now faced by a shortage of windshield glass, the pattern of January production was not entirely clear, but a conservative estimate of 570,000 would represent a 16.5 per cent improvement over 1958.

Mr. Allen also stated that in early January the Chicago Business Economists Group was polled concerning expectations for 1959. Whereas in the past there had always been at least a few members who took a relatively gloomy view of the outlook, this year there was unanimous agreement on steady improvement during 1959, differences of opinion relating only to the speed of the advance.

Turning to policy, Mr. Allen expressed the view that open market operations should continue with the same goals in mind as in the recent past and any doubts resolved on the side of restraint. With reference to the discount rate, the view held by all of the Chicago Bank's directors, as well as by the Bank's economists and himself, was that economic considerations, including the pace of industry, the structure of money market rates, and fears of inflationary pressures, made a case for increasing the rate to

3 per cent. As a matter of fact, the Bank's economists had urged him to recommend such a change at the directors' meeting last week, it being their view that an increase was a technical necessity and that it would be unfair to purchasers of Government bonds if the change were not made. His answer, Mr. Allen said, was in terms that the economists were worrying about the fellow in the plugged hat rather than the fellow who shines shoes, for if the Federal Reserve should contribute in any way to the failure of the Treasury financing it would be doing a disservice to the majority of the people. For that reason, he felt that the discount rate should not be changed before the next meeting of the Committee. Although the directors of the Chicago Bank were in his opinion ready to act, it was not his present intention to recommend a rate change before the meeting scheduled for February 19. In the meantime there would be another meeting of the Open Market Committee, and the Chicago Bank could be guided in the light of conditions as they might develop.

Mr. Leedy reported continued ample evidence of the expansive forces at work in the Tenth District. There had been a severe winter, with record-breaking cold spells in December and thus far in January and quite a bit of snow in recent weeks. While the weather had been quite favorable for the wheat areas, the indications for winter wheat pointed to a much smaller crop than last year. Feeding of livestock showed startling increases; in New Mexico, the number of cattle on feed this year was 58 per cent higher than last year, and there were smaller but significant increases in the other States of the district. While insured unemployment in the district increased in December, the rate continued more favorable than in the nation as a whole, ranging downward from a high of 4.7 per cent in Oklahoma. Department store sales continued strong, with sales in the week ending January 17 running 11 per cent higher than in the comparable week of 1958 and a 13 per cent increase above the year-ago level indicated for the four-week period ending on that date. There had been a continued demand for credit; in the four weeks ended January 14, business loans increased contrary to the seasonal pattern.

Mr. Leedy said he would continue to apply about the same degree of pressure that the Committee had been undertaking to apply in recent weeks. He would move as quickly as possible on the discount rate. Considering the problem of the Treasury, he would not want to move until after the books for the exchange offering were closed, but after that he saw no reason to delay. An adjustment of the rate was expected generally, and everyone seemed to agree that it was overdue.

Mr. Leach said that Fifth District economic developments during January appeared to have followed the pattern of the preceding few months, with continued but by no means booming advance. The cotton gray goods business was limited by the customary lull in the first half of January, but mills had substantial orders on hand for immediate and nearby deliveries. While new orders for later delivery of apparel fabrics were a bit slow, new orders for industrial fabrics reflected the steady improvement that had taken place in this end of the textile business in recent weeks. Representatives of the furniture industry reported a rising volume of new orders, and with the exception of the export trade the demand for bituminous coal appeared to be improving. Seasonally adjusted department store sales in January were estimated to have held very close to the near-record volume of December, and available reports on general business conditions indicated expectations of gradual increases in production, employment, and wage and salary payments during the first half of this year.

Mr. Leach expressed the opinion that the System's policy of keeping a gradually tightening rein on bank reserves had appropriately contributed to the continuing, moderate, widely-based expansion of production and consumption experienced since last spring. However, he was concerned about inflationary dangers and felt that the objective of stability in the value of the dollar should be kept foremost in mind. Except for periods of Treasury financing, he had thought in recent weeks that appropriate policy called for a gradual tightening through open market operations, followed by an increase in the discount rate for the purpose of rate alignment. In his judgment, short-term rates had now reached the point where an increase in the discount rate to 3 per cent would be appropriate if it were not for other considerations. Such a change had probably been discounted to a large extent and would not be interpreted as a move to aggressive restraint, as it might have been three weeks ago when the longest Treasury bill was trading under 2.70. For the time being, however, the condition of the Government securities market and the size of the forthcoming Treasury refunding clearly called for an even keel policy. In such circumstances it would not be feasible, practicable, or advisable to change the discount rate, and he hoped that during this period any doubts would not be resolved on the side of restraint.

Mr. Mills said that during the two-week period between now and the next Committee meeting a continuation of the present type of System policy and policy actions seemed to be in order. In his judgment, last week would have been the appropriate time, and the latest practical time, to increase the discount rate. However, since action was not taken, there was now no appropriate way of moving until after the Treasury had completed its financing operation. As Mr. Rouse reported, the Treasury was now engaged in consultation with the various financial groups. Since the advice it receives would very definitely be based on the prevailing discount rate and the pride of recommendation would attach to those consultations, he believed strongly that it would be a serious mistake to consider an increase in the discount rate immediately and run the risk of upsetting the basis of the discussions now in progress.

Mr. Robertson said that he saw no alternative to maintaining an even keel policy between now and the date of the next Committee meeting. This would be in accord with the position taken by the Committee consistently. His only suggestion would be that all parties keep their eyes peeled with a view to increasing the discount rate whenever such action was possible without interfering with Treasury operations. At such time, he felt that the rate ought to be increased more than the amount already discounted in order to establish a proper posture to combat what he considered the real danger of inflationary pressures.

Mr. Shepardson said it seemed to him that the national economy as a whole was in a healthy state of growth. He considered it fortunate, in fact,that activity was not booming too fast. As to System policy, he thought it desirable to continue to exert some degree of pressure in order to prevent unduly exuberant economic growth. To reap the full benefit of the increased productivity that had been mentioned, it appeared that a little more time must elapse, and in his opinion it was all to the good that the country was not experiencing too rapid an expansion. In view of the Treasury's problem and the budgetary situation, it seemed to him that inflationary pressures were still definitely in the ascendancy, which suggested that the System should try to maintain, as far as possible, a degree of restraint that would inhibit further accumulation of inflationary attitudes. While he doubted that System policy could do a great deal to influence the thinking on Capitol Hill with respect to the Federal budget, the System should endeavor to exert such force as possible at all times on the side of correcting the unbalanced budget situation. In the period immediately ahead, there was little that could be done so far as any change in System policy was concerned, but he urged maintaining fully the degree of pressure that had prevailed recently, with any deviations on the side of a little greater restraint rather than the reverse. Regrettably, it had not been possible to work in a discount rate adjustment, and it would be unwise to contemplate a change in the immediate future. However, he would hope that a change might be made shortly after the next Committee meeting.

In his summary of developments in the Fourth District, Mr. Fulton reported on a recent series of disastrous floods that produced considerable human suffering and interrupted manufacturing processes. As to the steel industry, he reported a situation similar to that described by Mr. Allen in the Seventh District, with the average rate of operations running above the national average. Users of steel were endeavoring to build up inventory of all types in contemplation of a strike, which did not augur well for the third quarter. Department store sales had been very large during the Christmas season, with the result that sales for the year ran only about 2 per cent below 1957, but since the

Christmas season trade had slackened a little. Persistent unemployment continued of concern despite the record upturn in activity in many areas of business and service throughout the district. Member banks had been borrowing at the discount window in rather large volume, perhaps because the district had not gotten its proportionate share of the increase in the money supply. Requirements for business loans were comparatively small, but the outflow of payments had caused a diminution in the availability of reserves and banks had been borrowing to replenish their reserves.

Mr. Fulton said that he would not favor an increase in the discount rate at this time in view of the Treasury situation and also because the rates on long-term issues had been rather stable. Whether that would persist in the light of additional Treasury offerings he did not know, but he would like to wait a little longer to see if the recent levels would hold. In March a rate adjustment probably would be appropriate if all other factors were equal. The Cleveland directors, he felt, would be favorable to a technical rate adjustment which would not be interpreted as overt action signalling a change in policy. In the meantime, he would favor continuing the degree of restraint that had been exerted recently, with no relaxation of pressure in any way. In his opinion, the Desk had been doing a good job in a period of erratic float fluctuations.

Mr. Bopp said that business activity in the Third District continued to rise slowly. Department store sales were by all odds the strongest sector, continuing to run well above a year ago. Comparatively, sales for the latest week were 12 per cent higher and sales for the past four weeks were 16 per cent higher. On the other hand, automobile registrations were faring more poorly than reported from other areas. After being about 10 per cent above a year ago in December, registrations in Philadelphia turned downward and were considerably below year-ago levels in the first three weeks of January. Manufacturing employment rose slightly in December, in contrast to a small decrease nationally, but employment was 4.4 per cent below a year ago compared with a drop of 3.6 per cent for the United States as a whole.

Mr. Bopp went on to say that at the meeting of the Philadelphia Board of Directors last week a number of the directors expressed the view that business sentiment was not quite as optimistic as a few weeks ago. Also, the rise in business activity was expected to be somewhat slower than earlier anticipated. Regarding the recent wage settlement in the oil industry, it was reported that although the industry wanted to hold the line on wage rates, most companies preferred to grant an increase up to 5 per cent rather than to risk a strike. There had been no increase in wage rates in that industry last year, so the 5 per cent increase was really a two-year adjustment, and it was hoped that the industry could pass the year 1960 without another adjustment. In the early postwar period the oil industry was a comparatively low cost industry because wage costs were a relatively small fraction of total costs. Now, however, the percentage of total costs attributable to labor had grown considerably.

Mr. Bopp said it seemed to him the System should maintain an even-keel policy at this time because of conditions in the Government securities market. There had been some discussion by the Philadelphia directors concerning the discount rate at their meeting last week, and he felt that the directors would not be unwilling to go along with a discount rate increase following the Treasury refunding operation.

Mr. Bryan said there was nothing of particular note to report from the Sixth District. The recovery had a hard core and was proceeding satisfactorily. There could well be virtue in the fact that the country was not experiencing a spectacular boom; even without such a boom, most of the statistics were at or approaching previous peaks. Recovery thus far had been characterized by relatively stable price levels, with perhaps some underlying difficulties in the industrial price component. It was also characterized, however, by the unsatisfactory nature of the employment figures, which tended to cause a great deal of dismay on the part of the public. Another thing he saw in the situation was that the Government securities market was very sick indeed, and he believed that if anything it would grow weaker. If the Federal Reserve held to its reserve position without doing anything overt, he felt that money rates were destined to go higher because of normal pressures incident to economic recovery and because the public was beginning to get apprehensive about inflation and fiscal affairs and Federal finance. Therefore, whether or not the budget for fiscal 1960 was balanced, he felt that the Government bond market was going to be in difficulty. After allowing for the reduction in reserve requirements, figures seemed to indicate that as against a year ago there had been about a 7 per cent increase in reserves, with a lesser percentage increase in the money supply. It seemed to him that the 7 per cent increase in reserves available to support the recovery was altogether ample and that no increase in total reserves of the banking system was called for in the near future. Accordingly, it was his view that the Federal Reserve ought to discard day-to-day or week-to-week adjustments based on reserve projections and come out for the foreseeable future with no net addition to total reserves. Believing as he did that reserve availability was ample for the time being and that there would be a tightening in money rates incident to further recovery of the economy, he felt that a natural and normal restraint would be developing.

When it came to the discount rate, Mr. Bryan said, one must face up to the fact that the System, on the basis of strict logic, probably ought to conform the rate more closely to short-term rates in the market. However, that would be very difficult because of the necessity of maintaining an even keel during the period of Treasury financing. Moreover, he questioned the advisability of moving on the discount rate for some time because, even though such a move would have elements of logic, he doubted whether it would accomplish much more than could be accomplished by keeping a tight rein on the reserve position. As he saw it, about all that would be accomplished by an increase in the rate would be that the System would step forward and accept responsibility for events that probably were going to occur anyway, and he did not see the necessity or desirability for taking such a step. Also, as he had said before at Committee meetings, he disagreed with the idea of increasing the rate promptly after a Treasury financing. Even without a discount rate increase, the rug was likely to be pulled from under the financing by virtue of a progressive upward tendency of money market rates, and action on the discount rate would simply give the Federal Reserve the credit for the rug-pulling. Accordingly, he would advocate no change in the discount rate for some time. On the other hand, he would favor keeping an extremely tight rein on the growth of reserves. If an even-keel policy--which he interpreted as meaning an even keel in terms of short-term rates--forced putting in some reserves, he felt that they should be removed promptly. In summary, he would avoid any overt actions that merely would gain for the System public responsibility for events that were in the cards anyway.

Mr. Johns recalled that he had argued heretofore for a change in policy, both through announcement of a change in the discount rate and through open market operations, prior to the period of the Treasury financing. At present, he was resigned to, but not happy about, waiting until an even-keel policy was no longer applicable.

After referring to the problems dealt with in the statements presented by Messrs. Young and Thomas, Mr. Szymczak expressed the view that in the current situation monetary policy quite obviously should assume a posture of restraint, tempered only by considerations relating to the management of the public debt and the unemployment statistics. He used the word "tempered" advisedly, he said, because, like it or not, monetary policy cannot be administered in a vacuum. The System would be expected to make a contribution in the areas dealing with the management of the public debt and with unemployment, which suggested careful study of the papers of Messrs. Young and Thomas. If it were not for those two factors, it would be relatively easy to see the proper course of monetary policy in the period ahead.

Until the date of the next Committee meeting, Mr. Szymczak said, it seemed necessary to stay about as at present as far as open market operations were concerned. As soon as practicable, however, consideration should be given to increasing the discount rate.

Mr. Balderston said that the most significant policy considerations today seemed to be financial ones. The high rate at which the active money supply increased between February and August last year--about 8 per cent annual rate--had now decelerated to the point where the rate of growth for the full year 1958 was only about 3-1/4 per cent. This seemed quite a satisfactory outcome for a year which began with a short recession and ended with eight months of recovery. He was not entirely sure what change in the money supply should be planned for the remainder of the current year, but he thought it probably should be less than 3-1/4 per cent despite residual unemployment in places like Detroit resulting, in part at least, from technical changes in agriculture, manufacturing, and even the service industries. Other financial considerations that impressed him as relevant at this time were, first, the fact that total credit and total loans at city banks during the first two weeks of January declined more than anticipated and, second, the fact that the differential between the Treasury bill rate and the discount rate did not seem as yet to have brought about misuse of the member bank borrowing privilege. Of course, that situation might change quickly and put some strain on the administration of the discount window. Since no action was taken on the discount rate at the beginning of January, it seemed to him that the System now had an obligation to the Treasury not to alter the present rate until the completion of the February refunding, for reasons set forth by Mr. Hayes and others. Further, he hoped that the System would not pull the rug from under the Treasury immediately after the refunding, for the reasons Mr. Bryan had indicated. When a change was made, however, he felt that

Mr. Robertson was correct. It must be remembered that the "open hunting season" for the System would not be a very long one; the times when it could act during the remainder of this year would be lessened due to the plight of the Treasury. Consequently, when the System did act, the action should be decisive. This time it would not be feasible to move, as in 1955, in small steps of 1/4 per cent. Current policy, Mr. Balderston said, should be continued until the next meeting of the Committee.

Chairman Martin said he could add nothing to today's discussion and that he would reserve any comments until the February 10 meeting. Opinion, he noted, seemed virtually unanimous. There was no call for a change in the directive and it was felt that the System should endeavor to maintain an even keel during the forthcoming period, recognizing that the Manager of the Open Market Account must determine the meaning of "even keel" in the light of the comments around the table.

The Chairman then asked whether there was any disagreement with this summary.

Mr. Hayes said he had no disagreement but would like to make one observation. He was glad that Messrs. Bryan and Balderston had commented about the undesirability of "immediately pulling the rug," for he had been somewhat concerned about earlier references to a change in the discount rate as soon as the books on the Treasury refunding were closed. Deliveries were scheduled to be made on the 16th of February, and he felt that a decent interval ought to be observed before any change in the rate was made.

Mr. Mangels stated that he concurred in the view expressed by Mr. Hayes, and Mr. Szymczak observed that this whole subject could be discussed further at the next meeting of the Committee.

Mr. Deming referred to comments by Messrs. Robertson and Balderston regarding a stronger than normal action on the discount rate and asked for interpretation.

Mr. Robertson replied that he had had in mind something more than 1/2 per cent, for he felt that a 1/2 per cent increase had already been discounted.

> 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 fostering conditions in the money market conducive to sustainable economic growth and stability, 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.

It was stated that the next meeting of the Federal Open Market Committee would be held on Tuesday, February 10, 1959, at 10:00 a.m. and that the next succeeding meeting would be on Tuesday, March 3, 1959.

Thereupon the meeting adjourned.

Winfield W. Riefler

Secretary