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, May 5, 1959, at 10:00 a.m.

PRESENT: Mr. Balderston, Chairman pro tem
Mr. Deming
Mr. Erickson
Mr. King
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Bryan, Alternate for Mr. Johns
Mr. Fulton, Alternate for Mr. Allen
Mr. Treiber, Alternate for Mr. Hayes

Messrs. Bopp and Leedy, Alternate Members of the Federal Open Market Committee

Messrs. Leach and Irons, Presidents of the Federal Reserve Banks of Richmond and Dallas, respectively

Mr. Riefler, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Jones, Marget, Mitchell, Parsons, Rooza, Willis, and Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account

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

Messrs. Freutel and Swan, First Vice Presidents of the Federal Reserve Banks of St. Louis and San Francisco, respectively

Messrs. Balles, Daane, and Tow, Vice Presidents of the Federal Reserve Banks of Cleveland, Richmond, and Kansas City, respectively
Mr. Stone, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Anderson, Economic Adviser, Federal Reserve Bank of Philadelphia
Mr. Coldwell, Director of Research, Federal Reserve Bank of Dallas
Mr. Brandt, Economist, Federal Reserve Bank of Atlanta

The Secretary stated that, since neither the Chairman nor the Vice Chairman of the Committee was able to be present at this meeting, it would be necessary to elect a chairman pro tem.

Upon motion duly made and seconded, and by unanimous vote, Mr. Balderston was elected to act as Chairman at this meeting.

It was noted that Mr. Freutel, First Vice President of the Federal Reserve Bank of St. Louis, and Mr. Swan, First Vice President of the Federal Reserve Bank of San Francisco, were in the Board's building today, and they were invited to attend this meeting in the absence of Mr. Johns and Mr. Mangels.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on April 14, 1959, were approved.

Before this meeting there had been distributed to the members of the Committee a report of open market operations covering the period April 14 through April 29, 1959, and a supplementary report covering the period April 30 through May 4, 1959. Copies of both reports have been placed in the files of the Committee.

Mr. Rouse stated that the money market had remained tight since the preceding Committee meeting. The effective rate on Federal funds dropped below 3 per cent on only one day--last Tuesday--and that drop reflected a sizeable month-end inflow of funds from country banks to the money centers. On Friday that flow was abruptly reversed and the market tightened substantially further. In dealing with this persistently tight situation, the System supplied a total of about $173 million reserves net during the period since the last meeting. Treasury bill holdings were up by $257 million, while repurchase agreements were down by about $82 million net. As of last night, however, $163 million repurchase agreements were on the books as a result of agreements made on Thursday and Monday.

Announcement of the Treasury financing last Thursday occurred against a background of several weeks of deterioration in the market for Government securities. At the time of the announcement, over thirty issues of notes and bonds were priced to yield more than 4 per cent, and three of these were selling at a 4.30 per cent basis or higher. Treasury bill rates moved higher early in the period since the last meeting, then moved down in response to the reappearance of some demand, and by the time of the Treasury announcement rates had again risen in response to a tapering off of demand. With this kind of market situation as a background, the Treasury's financing program was generally regarded

as the best available solution to a difficult problem. The market was particularly surprised to learn that the amount of new cash to be raised was considerably less than had been anticipated and that the lesser amount was expected to last the Treasury for the balance of the current fiscal year. Preliminary market guesses as to the rates that would be set on the new April and December Treasury bills to be auctioned tomorrow and Thursday were in the neighborhood of 3-3/4 - 3-7/8 per cent on the April bill and 3.60 - 3.65 per cent on the December bill. The market was probably very pleasantly surprised this morning to learn that the holders of only $473 million of the 4 per cent notes of August 1961 (18 per cent of the issue) had elected to obtain payment of the notes on August 1, 1959. A few days ago the market was guessing that between $750 million and $1.5 billion of the issue would be presented; most observers thought that the minimum would be about $1 billion.

Mr. Rouse then mentioned, as a matter of interest to the Committee, that the Canadian Government, which was faced this year with a large cash deficit--estimated at $850 million--and a sharply rising economy, had announced during the past week two steps to cover the deficit. The first was to add $20 million of 182-day bills to the current bill offering. If this step should be accepted by the market, the Government proposed to place an additional $20 million of six-month bills over seven additional weeks, which would

provide a total of $160 million cash. The second step was the offering of $150 million of Canadian National Railway bonds, which are fully guaranteed by the Canadian Government. Since this issue of bonds broke through the 5 per cent interest rate level, it was understandable that the decision to make the offering was a difficult one. Subscribers were given the choice of a nine-year bond or an eighteen-year bond at yields of 5.18 and 5.17 per cent, respectively. These offerings were being made in the face of a sharp demand for loans and commercial bank selling of Government securities which, over the past thirty days, had been proceeding at a rate of $50 million per week.

Mr. Rouse also reported that Home Loan Bank sources anticipated a large loan demand for the balance of the year in view of the current and prospective level of home building and the slowing down of cash savings at building and loan associations. This slowing down, in turn, was attributed primarily to the prospect for increased prosperity and, to a lesser degree, activity in the stock market. A sidelight mentioned by the Home Loan Bank people was that banks covering the areas of New England, New York, New Jersey, Indiana, Michigan, and Ohio did not need new money at this time, while the West Coast banks had such needs.

Mr. Rouse concluded by noting that apparently the low point of System Account holdings for the year had now been reached and holdings would move higher over the coming months as normal seasonal

movements in market factors absorbed reserves. The rate at which such holdings rose would, of course, depend not only on the pace of economic advance but also on the future course of Committee policy. The reserve projections presented with the supplementary report of open market operations were indicative of the situation over the balance of the current month, and the projections were close to those prepared by the Board's staff.

Mr. Mills referred to Mr. Rouse's comments, and those contained in the latest weekly report of open market operations and the supplementary report distributed this morning, regarding an inflow of funds from the country banks to the money centers early last week, followed on Friday by an abrupt reversal of that flow. He inquired whether, when a flow occurred from the money centers to the country banks, the Manager felt that allowance could appropriately be made to relieve the resultant tightness. While this was only a temporary phenomenon, it was a repetitive occurrence and the impact of the recent shift appeared to have been quite severe. It seemed to him that relief could be provided for that kind of situation, without disturbing the direction of System policy, by putting reserves into the market at the point where the pinch was felt.

Mr. Rouse replied that, as indicated by the report, the Account Management had met the situation primarily by the use of

repurchase agreements with dealers, which put funds into the market immediately. Last Thursday the Desk made $80 million of repurchase agreements and yesterday it made about the same amount. Later in the day the Desk made about $30 million more repurchase agreements to deal with the situation.

Mr. Mills then asked Mr. Rouse whether he felt any compunctions if the result was a return of temporary ease and perhaps a reduction of net borrowed reserves below the levels indicated by Committee objectives.

Mr. Rouse responded that he tended to be guided principally by the feel of the market within the limits of a fairly broad range of net borrowed reserves. He would have no hesitation about making repurchase agreements, if necessary, nor would he refrain from dealing in bills. He noted that the inflow and outflow of funds, while it took place regularly twice a month, did not necessarily take place on the same days.

> Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period April 14 through May 4, 1959, were approved, ratified, and confirmed.

Mr. Young made a statement on the economic situation, supplementary to the staff memorandum distributed under date of May 1, 1959, substantially as follows:

On the domestic side, today's report is again one of strongly expanding demands, rising productive activity, advancing prices at wholesale, and strongly optimistic business and financial expectations. Internationally, with activity in key industrial countries showing pickup and the balance of payments positions of material-supplying areas improving, it seems reasonable to infer that a general upturn in world output and trade is now setting in. U. S. exports, however, have not as yet given sign of recovery, so that U. S. balance of payments forces still favor accumulation of foreign dollar assets.

As to key facts:

GNP for the first quarter is estimated to have reached an annual rate of $465 billion. Increases were widespread, embracing durable, nondurable and service lines; only net exports of goods and services declined.

Industrial production in April rose at least one index point further. Considering the wide spread of increases, an index advance of two points is quite within the range of possibilities.

Auto markets recently have been quite strong, at a 6 million annual rate for domestic and imported new cars together. Prices for late model used cars were about 15 per cent higher than a year ago, and used car sales were also this percentage greater. Sales of household durables remained close to a record rate. With demands for consumer durables at high levels or expanding during the first quarter, outstanding consumer instalment credit rose sharply--by the largest quarterly amount since 1955.

New orders for manufactured durables in March, seasonally adjusted, were the highest for any month since the end of 1956. The gain over the preceding month was 1 per cent, which followed a rise of 7 per cent in February. Gains were made by all industries except steel, and the total of gains more than offset a substantial percentage decline in steel orders. Unfilled orders of durable manufacturers have now risen impressively for three successive months.

Higher new orders in durable lines were accompanied by a sizeable 2 per cent rise in sales to all manufacturers. The sales gain, of course, was largest for durables.

Construction activity in April continued strong, though dipping a little from February. Commercial activity rose, but other types of construction were off a little. Residential housing markets and financing continue active at very high levels, with mortgage interest levels firm.

Labor market data, though limited for the recent interim, point to further strengthening of demands for manpower. The principal evidence consists of a fairly striking April decline in new claims for unemployment benefits, to levels about the same as in corresponding weeks of 1957 and 1955. The total of insured unemployment also declined significantly.

Industrial commodity markets have continued to show an upward tilt. The April rise for the industrial price average was at an annual rate of about 3 per cent. Since mid-1958 the rise has been about 2.5 per cent. Recent price advances have been numerous among the more demand-sensitive raw materials, but price markups of finished industrial products have also been gaining in frequency.

Wholesale prices of farm products increased a little in April, reflecting mainly seasonal contraction in livestock marketing. Expanding consumer demand for meats and other foods has also been a factor in firmer prices in farm product markets.

Altogether, the economic expansion in process appears thoroughly robust, with many earmarks of developing inflationary boom. At an earlier meeting this spring, we observed that the economy might soon enter a phase of strongly inflationary price trends. Recent news, international as well as domestic, confirms that such a phase has probably now been entered. Accordingly, the risk that inflationary trends may get ahead of System policy is no longer a future threat; on the contrary, it is a present danger.

Supplementary to the staff memoranda on the outlook for Treasury cash requirements and the outlook for member bank reserve positions distributed under date of May 1, 1959, Mr. Thomas made a statement on financial developments substantially as follows:

Pressures on financial markets increased during April. This trend seems to reflect expanding monetary and credit demands incident to the continuing advance in business activity rather than limitations on the supply of credit. Demands on long-term capital markets have been moderate, but bank loans have increased more than seasonally and banks

have also been endeavoring to distribute U. S. Government securities taken on in the April 1 financing.

Loans to business by city banks showed little change in April following a sharp increase in March. Consumer instalment credit has increased more rapidly this year than in any year since 1955. Mortgage demands continue large and real estate loans at banks also have increased more than at any time since 1955. The stock market has risen to new high levels and stock market credit continues to increase.

Under the circumstances, interest rates have tended to rise further. Yields on outstanding corporate bonds rose during April and new issues have generally sold in the market at yields above original offering rates. U. S. Treasury bonds have risen, with several issues yielding around 4-1/4 per cent. Treasury bill yields increased in the first half of April and that on the 3-month bill rose above 3 per cent for a few days. Subsequently they declined somewhat, as nonbank demand for bills appeared, and dealers, as well as banks, were able to reduce their positions. The 6-month bills showed similar movements, reaching a peak of around 3-3/8 per cent. The new January bill continued close to a 3.60 per cent yield or higher.

Available data clearly indicate that the money supply has shown a seasonally adjusted expansion during the past two or three months. This is shown not only by single date figures but also by available half-monthly daily averages. Figures for demand deposits adjusted at all member banks for the first half of April show a seasonally adjusted increase of somewhat more than $1 billion since the latter part of February. Wednesday figures for city banks indicate a further increase during the last half of April. Currency in circulation this year has declined by fully $200 million less than usual. The growth in the money supply has been accompanied by an increase in the turnover of deposits--a combination that occurred also in the early part of 1955.

In addition to the growth in private deposits, Treasury balances are close to a billion dollars larger than had previously been projected for this period. After increasing in the next two weeks, Treasury balances will decline sharply in the first half of June and then increase again in the last half as a result of quarterly tax receipts, which will more than offset retirement of tax bills.

The improved Treasury cash position and prospects for future tax receipts above earlier estimates are reducing Treasury borrowing needs, as explained in a memorandum

previously distributed. The present operation may take little over $500 million net after allowing for attrition. After the current financing operations have been completed, the Treasury will not have to return to the market for new cash until early July. In late June the Treasury will retire a $3 billion tax anticipation issue and July borrowing will be only a little larger than that. Some additional borrowing may be needed in August to cover attrition, and another tax anticipation issue of $1.5 billion will be retired in September. For the five months May to September, inclusive, there is likely to be only a small net increase in the public debt of around half a billion dollars.

Banks' reserve positions have tightened in the past month because of the larger than expected increase in required reserves, the failure of currency in circulation to decline, and a resumption of the gold outflow. Float, on the other hand, has continued larger than was expected. Some reserves have been supplied on balance by System open market operations. Member bank borrowings have remained close to $700 million on the average and excess reserves have averaged about $450 million, after revision for a higher level of required reserves at country banks than was originally estimated.

Country member banks' reserve positions have shown a tendency to tighten, with excess reserves averaging around $400 million and borrowings about $200 million. This tightening has apparently resulted from an expansion in their credit, on a seasonally adjusted basis, rather than from a loss of reserves. Reserve city banks as a group have been persistent borrowers of over $300 million, although there have been relatively few individual banks that might be classified as continuous borrowers.

Projections based on customary seasonal changes, together with a continuing moderate gold outflow, indicate a further substantial tightening of bank reserve positions in the absence of System operations. It would seem appropriate to provide reserves to cover customary seasonal needs, as was done Friday and yesterday. Some question may be raised about offsetting the gold outflow, which reflects influences with respect to competitive pricing of goods and to money market developments that might call for a tightening of credit restraints.

Evidence that there has been monetary expansion, after adjustment for seasonal variations, at a rate which should not be continued, would indicate that System restraints have not been adequate. Member banks probably should be required to obtain some of the additional reserves desired through an increase in their borrowings at the Reserve Banks.

> Since the current Treasury financing will result in little net increase in outstanding debt, if banks do initially increase their holdings, they should be kept under pressure to reduce them as Treasury deposits are drawn down. If loan expansion continues, banks should offset the increase by sales of Government securities. If net expansion occurs, banks should be required to borrow the reserves needed to support it and discount rates should be increased. The discount rate ought to be kept above yields on 90-day Treasury bills, particularly since the latter are low relative to other rates in the money market.

Mr. Balderston made reference to the outflow of gold from the United States and then called upon Mr. Marget, who said one might take the position that the outflow was still a balance of payments phenomenon. During the first quarter of this year there had been a rather substantial accumulation of dollar balances by foreigners, and the United States balance of payments showed a sizeable deficit. The recent resumption of the gold outflow possibly could be explained by the fact that the foreign countries obtaining dollars happened to be countries that preferred to take the additions to their reserves in the form of gold rather than dollar holdings. The United States was still faced with the problem of adjustment of its balance of payments and until equilibrium was restored it must be expected that some outflow of gold would continue. In these circumstances, the things called for by the domestic situation were the same as those called for by the international situation.

Mr. Mills suggested that the increasing level of activity in the United States had had the effect of fostering a higher rate

of imports. At the same time, as economic activity in Western Europe--and the United Kingdom in particular--gained momentum, it would seem reasonable to expect that the pressures on the facilities of those countries would be such as to necessitate increasing their imports in order to replenish inventories and supplies. A reason for the improvement in United Kingdom gold reserves might be found in the tendency of prices of raw materials to rise in the dominions and colonies, which would produce an inflow of hard currencies to the United Kingdom. At some point this would produce an improvement in the reserves of the colonies and dominions such as to enable them to relax their import restrictions. Mr. Mills concluded by saying that he had been rather alarmed at the piecemeal character of much of the recent discussion relating to the international position of the United States.

Mr. Marget agreed and said that the processes outlined by Mr. Mills created hope that adjustment of the United States balance of payments would come about through an increase in exports. Nevertheless, the latest figures showed that there was as yet no upswing. While there always tend to be lags, it was important that the United States be in a position to take advantage of the anticipated demand for exports from foreign sources. He trusted Mr. Mills was right about foreign countries removing their remaining import restrictions on durable goods. The United States must be

competitive, and it would be hoped that other countries might give the United States a chance to show that it was competitive. With the growing strength abroad and the hoped-for relaxation of import restrictions, there seemed no reason to be pessimistic about the United States balance of payments, although it would take some time for adjustment to come about.

Mr. Thomas commented that he thought there might be reason to be pessimistic. The net result of attempts in this country to validate our wage and price policies through monetary expansion could succeed only if we could inflate the whole world. Germany and the Netherlands and some other countries had indicated that they were not going to be inflated. If the United States continued to try to maintain employment and high prices by increasing the money supply, expanding credit, and extending fiscal operations, the result might be to price United States goods out of world markets. If countries such as Germany and the Netherlands and others neutralize the reserves they obtain and do not permit them to be reflected in their own price levels, the United States might fail to obtain the adjustments that would be necessary to maintain its exports.

Mr. Treiber then made a statement of his views on the business outlook and credit policy substantially as follows:

> As Mr. Young pointed out in his report, business activity has continued its steady forward progress, marked by peak housing and other consumer demand, by peak industrial production, and by high performance of a variety of other indices. Commercial bankers

expect a growing demand for loans. It is good news to hear these reports of gaining business strength. While there has been some increase in inventories, particularly in steel and automobiles, a rebuilding of inventories is necessary to support the rising level of activity at a time when inventory-sales ratios are near record lows. Unemployment is still high, although probably declining. Rising production should increase employment.

Plant and equipment expenditures constitute perhaps the area of greatest potential expansion. Recent data are optimistic. The latest McGraw-Hill survey, issued in mid-April and based on opinions obtained in March, indicates a 7 per cent rise between 1958 and 1959. This compares with a 4 per cent increase projected by the Commerce-SEC survey issued in mid-March and based on opinions obtained in January and February. Two-thirds of the expansion projected for 1959 is for modernization rather than for additional capacity. The good reports of corporate income that have been coming through for the first quarter of 1959 may stimulate capital expenditures.

Over-all price indices have been relatively stable, yet the underlying price situation is not entirely serene. There are warning signals in the movement of some of the components of the indices. A decline in farm prices and a general world-wide weakness of raw material prices have kept the leading indices in check. The consumer price index continued without change in March only because food prices declined. In April and May food prices normally rise for seasonal reasons, and during the spring months we cannot count on the offsetting effect of food prices. Prices of manufactured articles have been rising slowly despite the existence of a fair amount of unused industrial capacity.

We are entering a critical period in wage negotiations. Wage settlements in basic industries, such as steel, set a pattern for wage adjustments in other businesses. If wage increases on average exceed average increases in productivity, there will be a resultant pressure on costs which is likely to have an adverse effect on the price structure. The cost-price push is an important threat to price stability. Once this push gets snowballing, the effectiveness of monetary policy is impaired.

The Treasury deficit is another area of potential inflationary pressure. The banks are expected to buy new issues of Government securities as part of the underwriting process. It is important also that the banks dispose of the securities they thus acquire, or other securities, so

as to avoid an increase in the money supply (as commonly defined) arising out of Government deficit financing. So far this year the banks have been able to sell to nonbank purchasers more Government securities than the banks have acquired. We will want to watch carefully the trend of bank security holdings from here on. We are particularly concerned over the risk that nonfinancial corporations may become net sellers of Government securities during the fall and winter months.

While there are inflationary possibilities lurking in the shadows, they are not sufficiently imminent, in our opinion, to call for an immediate increase in monetary restraint.

The Treasury is now in the midst of a large refunding and cash operation, with the new securities to be issued next week. Market stability is called for not only through the issue date but for a reasonable period thereafter. Thus, Treasury operations call for the continuation of an even-keel policy during the period between now and the next meeting of the Federal Open Market Committee.

It appears now that the Treasury will not have to come to the market again until the last week of June. This will afford an opportunity for Federal Reserve action following the next meeting of the Committee, if action then seems appropriate. Assuming a further gathering of momentum in business activity and a further development of potential inflationary pressures, it would be well between now and the next meeting of the Committee to consider the kind of directive suggested by the developing situation, the extent to which a more restrictive credit policy may be in order, and the methods of implementing such a policy if it appears to be called for.

At the present time we would favor (a) no change in the formal directive; (b) no change in the discount rate; and (c) the conduct of open market operations so as to continue to maintain about the present degree of restraint, giving primary attention to the behavior of the money market and the rates of interest in the market.

Mr. Freutel reported that the economic status of the Eighth District, as measured by employment data and other indicators of industrial activity, continued to show improvement. Employment was up, especially in durable goods occupations in the metropolitan areas.

Steel production reached 97 per cent of capacity in April, up one per cent from March, and most other indicators of economic activity also rose, only crude oil and coal output showing slight declines. Farm operations throughout the district were generally on schedule for the season; for the most important crops, prospective acreage was greater than last year but below the average for the preceding ten years. Cash receipts from farm commodity marketings were somewhat higher the first two months of this year than last, principally because of the greater carry-over in tobacco marketings. Average prices for major farm commodities were approximately 5 per cent below year-ago prices.

Total deposits at weekly reporting banks fell about 5 per cent over the past month, Mr. Freutel said. Time and savings accounts rose slightly, but demand balances of individuals and businesses, government, and banks were down. In the face of this drain, reporting banks lowered their cash balances and increased their borrowings, both from the Reserve Bank and in the Federal funds market. A moderate contraseasonal rise in loans was more than offset by a substantial net reduction in security portfolios. Business loans contracted about seasonally, but consumer and real estate loans rose. In recent weeks, both member bank borrowing and the reserve deficiency reports indicated somewhat greater pressure on country banks than had obtained over the past year. Country

member bank borrowing showed a significant increase for this period of the year, both in terms of total advances and number of banks borrowing. Similarly, there had been a notable increase in the number of reserve deficiencies at country member banks.

Mr. Bryan stated that the Sixth District economic picture was almost identical with the composite national picture, although perhaps a little stronger. Nonfarm employment and manufacturing employment both were up and retail trade was strong. Bank debits, demand deposits adjusted, and currency likewise were up on a month-to-month basis, and construction contract awards had spurted. Manufacturing payrolls and average weekly work hours were up, while insured unemployment was down.

Mr. Bryan said he agreed with the economic presentation made by Mr. Young and the financial presentation made by Mr. Thomas. He had little to add except to say that he thought there was grave danger of allowing the money supply to increase at a rate that could not be sustained without inflation. He did not believe that System policy had been particularly restraining.

Mr. Bopp reported continued improvement in Third District business. Manufacturing employment rose contraseasonally in March, with virtually all of the 1 per cent gain over February in the durable goods industries, principally primary metals and transportation equipment. Average weekly earnings in the durable goods

industries were nearly 3 per cent above February, reflecting increases in hours worked and in hourly earnings. New unemployment claims in Pennsylvania had moved irregularly and were close to the 1957 level; continued claims, although still above 1957, were declining steadily and were well below the level of a year ago. Unemployment remained high--8.8 per cent of the district's labor force being out of work in March compared with 6.4 per cent nationally and 9.6 per cent in March of last year. Construction activity was especially strong, total contract awards in March being 47 per cent above a year ago compared to 23 per cent nationally. The March increase was accounted for primarily by residential and public works construction. For the first quarter, total contract awards were about one-third above a year ago, reflecting principally a sharp rise in residential construction.

Mr. Bopp went on to say that steel mills in the Philadelphia region were operating at 96.5 per cent of capacity in the latest week; however, the rate in the past three weeks was somewhat lower than in the previous three weeks. Department store sales for the four weeks ended April 25 were unchanged from a year ago but were 7 per cent higher for the year to date.

Total loans and investments of Third District weekly reporting banks had declined substantially in the past three weeks. Loans were up slightly, increases in real estate and "other" loans being only partly offset by a small decline in business loans.

Securities holdings dropped nearly $80 million, all types of securities being included in the decline. The substantial increase in holdings of Governments in the week ending April 1, presumably reflecting allotments of the new Treasury issues of that date, had been more than wiped out by reductions in the following four weeks. There was little change in deposits.

Reserve pressures on the large Philadelphia banks had moderated significantly in the past three weeks; the daily average basic reserve deficiency dropped from $72 million to less than $10 million in the latest week. Borrowing by these banks from the Reserve Bank dropped from a daily average of $63 million to $18 million in the latest week. Purchases of Federal funds by Philadelphia banks were relatively small throughout the period, and in the latest week those banks were net sellers on balance for the first time since mid-January. Country bank borrowing from the Reserve Bank increased moderately to a daily average of $12 million in the latest week.

Mr. Bopp expressed the opinion that, in view of the current Treasury financing, the Committee should aim at maintaining an even keel in the next three weeks. He would give more consideration to sensitive rates, such as the Federal funds and bill rates, and to other indicators of the tone of the market than to the level of net borrowed reserve figures. He would like to see the Federal funds rate at the discount rate, and the market rate on three-month bills a little higher than at present, if that could be

accomplished without upsetting the Government securities market. While he would not favor a change in the discount rate or the directive at this time, he would want to give consideration to changes after the Treasury financing was completed.

Mr. Fulton commented that today marked the opening of wage negotiations in the steel industry and reported in some detail on union demands and company attitudes which led to the conclusion that a prolonged strike might occur this summer. The timing of any strike was conjectural, however, because the workers might elect to work for some time without a contract and then strike later in the year when such a move would have greater economic impact. Although inventories had been built up, it appeared that they were still somewhat slim, particularly at smaller users. In any event, orders for delivery after July 1 were small, indicating relatively poor third quarter operations whether or not a strike developed. The steel companies looked for about a 60-day strike at the outside and seemed determined, at least at present, to hold out for a wage agreement that would not result in a substantial price increase for steel. The industry was also finding concern in shipments of foreign steel into the United States at prices favorable to those for the domestic product.

In the machine tool industry, Mr. Fulton said that new orders were now coming in, but at only about half the pre-recession level. Residential building contracts for the first quarter were

up 40 per cent over a year ago, and nonresidential construction was up 7 per cent, but heavy engineering contracts were down 8 per cent. Department store sales were up 6 per cent from year-ago levels. Unemployment was gradually decreasing but was still substantial, with the concentration largely among unskilled workers. The mills and heavy industries had been moving into an overtime basis rather than take on new employees.

Mr. Fulton went on to say that there had been a considerable drop in total deposits of Fourth District weekly reporting banks for the year to date. A shifting from savings to demand deposits served to give the money supply a boost. Actually, however, the conversion of time deposits, which accumulated quite rapidly last year, would indicate that they were not truly time deposits and that they really should never have been deducted from the money supply. Therefore, he was not sure the money supply had increased to the extent indicated statistically under a definition that excluded time deposits.

Mr. Fulton said he would like to see about the same feel in the market continue for the next three-week period. He would prefer to see what was happening in the wage negotiations in the steel industry before making any move toward further tightening. He would not favor a change in the discount rate or in the policy directive at this time, and in his opinion the Desk had done a good job in maintaining a feel of tightness in the market.

Mr. King indicated that he did not wish to comment at this meeting.

Mr. Shepardson commented that current reports from economists, as well as reports generally, were indicative of an upturn in business throughout the country. The nation seemed to have passed the point of recovery and to be on the verge of substantial expansion. The divergent trends within the over-all price index gave him real concern, for the country had come through a recession with a continual upward trend in basic nonfood prices and it appeared that the forthcoming wage negotiations were apt to set the stage for further acceleration. He was also concerned about the line of thinking which held that as long as wage increases did not exceed productivity the situation might be all right. This, he felt, was a fallacy, and he saw no basis for agreement with the idea that wages should take all of the increased productivity. As he saw it, to accept such a view would mean automatically accepting the idea of inflation. With respect to foreign competition, he noted that there had been a period when business seemed receptive to the building up of international trade. Recently, however, there seemed to have been almost a reversal of that position, as suggested by resolutions adopted at the recent meeting of the United States Chamber of Commerce which envisaged such things as quotas and higher tariffs. This was particularly disturbing when one thought of the gold movement discussed earlier in this meeting. Unless

United States industry got on a competitive basis and stayed there, the international trade picture might become worse.

All of these things, Mr. Shepardson said, led him to the conclusion that the System must begin to think about a policy of more drastic restraint. In saying this, he realized the difficulty of doing very much in the immediate future in view of the Treasury financing. At the same time, it seemed to him that the System should be keenly aware of the situation that loomed ahead and be making preparations for early action. Even during the period immediately ahead, pressure should be kept fully as great as it had been recently; to use an oft-repeated phrase, errors, if any, should be made on the side of tightness. He would like to see such further tightness applied as could be applied within the framework of avoiding a disturbance to the Treasury financing, looking to development of further restraint as soon as feasible.

Mr. Robertson said he agreed with Messrs. Shepardson and Bryan that the dangers of inflation today were much greater than generally realized. He did not think that System policy had been sufficiently restrictive, and he saw grave danger, not only in the near future but in the longer run, that United States industries would price themselves out of the market. However, he agreed with Mr. Treiber that little could be done during the period immediately ahead. It was regrettable, he thought, that the Open Market

Committee had its hands tied by Treasury financing operations for such a large part of the year. In his opinion, one of the major problems facing the Committee was to work out some method whereby the Committee would have a freer swing. While he did not have the solution, this was something that would have to be worked out or inflationary developments would get ahead of the System.

Mr. Robertson stated that he would continue to maintain pressure as fully as possible without disturbing the Treasury financing. The Committee should keep its thoughts focused on the need for further restriction, and by this he meant real restriction. At its next meeting the Committee should work toward much greater restriction despite Treasury financing problems that might come up after the middle of June. The System must set the tone and try to work in keeping with that tone, which, in turn, must be in keeping with the inflationary dangers now present.

Mr. Mills said that the money supply, as a quantitative economic factor and indicator, had come to be bandied around more and more frequently in the discussions of the Committee without deciding, perhaps, in what perspective the money supply should be viewed. Mr. Thomas had pointed out that the absolute level of the money supply at any particular date was not necessarily a guide to its influence on the economic situation. What had not been discussed was the rate of increase in the money supply

relative to the increase in gross national product, stated in terms of constant dollars. As he recalled, the staff economic review submitted to the Committee in advance of this meeting mentioned a 2-1/2 per cent increase in the money supply during 1959 to date, and a 2-1/2 per cent increase, when considered in relation to the level of current economic activity, might or might not be a matter of serious concern. Personally, he doubted that it was a matter of serious concern or that it would be wise for the System so to strain monetary policy as to attempt to defeat and finally counteract what was probably a normal growth.

As might be surmised, Mr. Mills said, his position with regard to System policy was in serious contradiction to the positions taken in the comments around the table thus far at this meeting. To submit his own views in as concise a form as possible, he then read the following statement:

> My objections to a Federal Reserve System monetary and credit policy that, in my judgment, is unnecessarily and unwisely restrictive still stand. Inasmuch, however, as it will be necessary to supply new reserves about May 12 in support of commercial bank subscriptions through their Tax and Loan Accounts to the Treasury's April 15, 1960 special bill, and as reserves may also be supplied through the process of attrition on maturing Treasury issues, a ready-made means is available for unobtrustively relaxing reserve pressures, but not to the degree that would impede a prompt redistribution of the new issues of U. S. Treasury securities that the commercial banking system is now expected to acquire. If an orderly transference of commercial bank holdings of old and new purchases of U. S. Government securities into other forms of loans and investments is to be accomplished in order

that the legitimate demand for commercial bank loans may be serviced, the Federal Reserve System must cease and desist from a policy which, by maintaining a constantly rising level of negative free reserves, is touching off a spiral of contractive credit forces, the results of which would only come to light in their true state after the effects of the injection of new reserves attendant upon the Treasury's financing operation had worn off. Avoidance of excessive pressure on the supply of reserves can accomplish a desirable redistribution of U. S. Government securities out of the commercial banking system within a reasonable length of time while also allowing room for the commercial banks to absorb the seasonal demand for credit that is now a tangible prospect. If, on the contrary, in order needlessly to restrain any growth in the money supply, Federal Reserve System policy denies elbowroom to the commercial banking system in which to expand their loans and investments, harmful consequences to the U. S. Government securities market can be anticipated when the commercial banks are forced to liquidate U. S. Government securities so as to make good their lending obligations to their customers. Under such circumstances, the destructive influence of constantly falling prices for U. S. Government securities can lead to disorderly market conditions whose correction might defeat the very policy purposes that have been sought after.

I would oppose an increase in the discount rate at the present time, in that the logic for such an increase would have to derive from market reactions to a Federal Reserve System monetary and credit policy that I cannot approve.

Mr. Leach reported that the economy of the Fifth District, paced by its leading manufacturing industry, textiles, continued to expand through April. Total nonfarm employment had now passed pre-recession peaks in two States, though for the district as a whole it was still 1 per cent short of that level. Recent gains

in manufacturing manhours continued in March, to bring the seasonally adjusted first quarter increase to 3 per cent. The textile industry was demonstrating impressive contra-seasonal strength in orders, production, and shipments in practically all of its divisions. Furniture makers apparently had a good spring market, and the lumber industry continued to expand employment and output. The darkest spot continued to be in West Virginia, which showed little or no progress in overcoming its severe problem of coal mining unemployment.

At the last meeting of the Committee, Mr. Leach recalled, he reported data on borrowings of Fifth District banks which seemed to indicate that monetary policy was having a more widespread tightening effect in the first quarter of 1959 than in the first quarter of 1957. April data showed that this continued to be true and that the difference was widening. In April 1959 the average number of banks borrowing from the Federal Reserve Bank of Richmond was 36, compared with 23 in April 1957, and the daily average amount of their outstanding borrowings was $52 million, compared with $34 million in April 1957. District banks that participate in the Federal funds market purchased almost three times as much Federal funds in April 1959 as in April 1957.

Further evidence of the tightness now prevailing among Fifth District member banks could be found in the extent of

security depreciation in the portfolios of member banks examined since the first of the year. Of 1953 banks examined, 117 had depreciation as of the date of examination exceeding 5 per cent of their total capital accounts, 70 had depreciation in excess of 10 per cent, and 13 had depreciation over 20 per cent. Presumably, depreciation was now even larger because of the recent decline in markets for fixed obligations. A test check indicated that most banks had more depreciation now than at the corresponding time in 1957.

While completely comparable figures were not available for the United States, Mr. Leach noted that national figures showed average daily borrowings of all reserve city and country banks from the Reserve Banks as high in April 1959 as in April 1957 even though the net borrowed reserve figure in April 1959 averaged about $240 million compared with $505 million in April 1957. All of this led him to believe that the lending decisions of member banks outside of New York and Chicago were currently subject to as much or more pressure than at this time in 1957, when the Committee's directive was aimed at restraining inflation and aggregate net borrowed reserves were much greater.

This pointed up the wide range of possible effects that might stem from a given level of net borrowed reserves, Mr. Leach said, but it did not mean that he would advocate any change in

over-all restraint. He agreed substantially with the appraisal by Mr. Young and Mr. Thomas of the condition of the economy and the danger of inflation. However, he thought the Committee should bear in mind the danger that sizable additions to the total amount of net borrowed reserves under the existing distribution pattern might cause more pressure at reserve city and country banks than desired. For the period immediately ahead, an even-keel policy was clearly called for by the current Treasury financing. The policy directive was getting out of date, if it was not already, and if the present trend should continue the Committee might want to consider a change in the directive at the next meeting.

Mr. Leedy stated that Tenth District agricultural conditions remained favorable except in southwestern Oklahoma and parts of New Mexico, where severe drought conditions prevailed. Cold weather had retarded the development of pasture, necessitating supplemental feeding of livestock in some areas, but cattle slaughter remained relatively low, which indicated that the producers were continuing to expand livestock numbers rapidly. Nonfarm employment in March was 3 per cent above the year-ago level and the current district employment level, allowing for seasonal factors, appeared to be at least as high as at the mid-1957 peak. Construction showed considerable strength, with awards for the first quarter 11 per cent higher than in the comparable period last year, and residential

construction awards were 50 per cent higher. Through April 25, department store sales increased 10 per cent over last year, a higher rate of increase than in any district except the Twelfth.

Continuing the district summary, Mr. Leedy said that thus far this year there had been an actual growth in business loans, in other loan categories there was considerable strength, and in investment portfolios, also, there had recently been some increase. Apparently, some bank purchases in connection with the April 1 financing had not yet been liquidated. In the past few days member bank borrowing reached a level a little higher than $100 million, far more than the district's proportionate share of total borrowings. Thus, it seemed that System policy had been operating in the Tenth District with greater force than in most other districts.

As to policy for the period immediately ahead, Mr. Leedy subscribed to what had been said many times around the table this morning, that is, that the Committee could do no more than maintain an even keel in view of the Treasury financing. Except for that circumstance, it seemed to him the statistics showed every reason for the System to be moving further in the direction of restraint. The thinking beyond the period immediately ahead should be in terms of more restraint on reserves and possibly an increase in the discount rate at a time not far in the future. In view of the changes that had occurred since the policy directive was first adopted, he felt that a revision would be indicated at the time of the next Committee meeting.

Mr. Mitchell stated that both statistical evidence and opinions pointed to a rather steady rise in the trend of activity in the Seventh District. A number of cases were noted where cautious optimism had changed into confident assurance of moving into a high level of activity. Furthermore, the improvement was not confined to sections badly hit a year ago. For example, bank debits in Iowa communities this year were running about 14 per cent higher than last year. Department store sales in eastern Michigan had been especially strong, considering the bad showing a year ago, and sales in Chicago were up though not so favorably on a comparative basis. The unemployment situation continued to improve throughout the district, and it appeared that Chicago might move into a higher labor classification at the time of the next announcement by the Department of Labor.

On the financial side, Mr. Mitchell said that the expansion of business loans since last summer continued to be a little more vigorous than in the comparable 1954-55 period. During the period August 1958 through April 1959, business loans increased about 7-1/2 per cent, compared with a 5 per cent increase in 1954-55. At Chicago banks, the expansion was more than 6 per cent and elsewhere in the district the increase was even greater. The growth of time deposits in the first quarter of this year was less than in any quarter of 1958, and the rate of growth of

savings account balances in the major cities had declined steadily since last October. Detroit banks had announced an increase in rates on time deposits and there was speculation that Chicago banks would go to a 3 per cent rate on savings accounts.

Mr. Deming reported that business activity in the Ninth District continued to exhibit a stronger than seasonal upturn. Construction was particularly strong and iron ore production was going along at a fast pace. While total nonagricultural employment was improving rather slowly, employment in construction and mining in March was up 5 per cent and 9 per cent, respectively, from year-ago levels. It was anticipated that April figures would show further sharp improvement, especially in iron ore mining. Other indications of economic vitality were an upsurge in department store sales and in bank debits, the latter being up 15 per cent in March. Farm income, too, continued to run higher than a year ago. While it seemed likely to stay on the plus side during the first half of this year, the longer-range farm outlook was not too good at the moment due to a severe spring drought over much of the district. Unless there was lots of rain soon, 1959 small grain production would be much less than last year.

Current loan demand was strong, Mr. Deming said, particularly for commercial and industrial loans. The rise in business loans at

city banks from mid-February (the seasonal low) to mid-April was twice as large as in 1958 and one-third more than in 1957. In general, the recovery in the Ninth District was proceeding on a satisfactory basis. Little evidence of speculative activity was seen locally and if it were not for the drought, the district would feel quite comfortable at the moment.

With respect to monetary policy, Mr. Deming said that he had no reason to disagree with the analyses presented by Mr. Young and Mr. Thomas and tended to concur in Mr. Thomas' feeling about the international competitive situation. Generally, then, he felt that the course of monetary policy should be moving toward a more restrictive posture. At the same time, he was quite concerned about the rate picture in the Government securities market and the problems facing the Treasury in the future. He found it difficult to press for action that would seem to force the Treasury to confine its financings even more to very short-term securities, for such a policy would be self-defeating from the System's point of view. This dilemma did not bother him greatly for the next three-week period, since an even-keel policy seemed called for during that period. Beyond that time, however, it bothered him very much. He agreed with Mr. Robertson that some kind of solution to this problem had to be worked out, but he did not see the solution at this moment.

Mr. Swan reported that Twelfth District business activity continued to move forward at a rapid pace, with particularly high rates of activity in construction, trade, and services. Employment was up in March, with manufacturing and construction leading the way, and a further rise in April was indicated. In the aircraft industry a slight declining trend in employment continued in the State of Washington in March, but that was offset by an increase in California. The rate of unemployment in the Coastal States declined in March to 4.6 per cent, retail sales continued strong, and automobile sales were continuing to rise. In recent weeks the district's steel mills had been operating at close to capacity, and many of the mills appeared to be booked virtually to capacity through the month of June. With the mounting demand for lumber, the March cut in Douglas fir prices proved to be short-lived and was succeeded recently by another price increase. Construction activity advanced sharply in March, with residential construction reflecting a particularly marked increase. It appeared as though this trend would continue, for FHA applications were heavy in March. The recent McGraw-Hill survey of plant and equipment spending plans indicated a somewhat greater increase in the Twelfth District for 1959 than for the country as a whole.

In further comments, Mr. Swan said that district weekly reporting banks had recently experienced a sharp loan increase, substantially more than for the corresponding weeks last year and

three times the rate of increase reflected by the national series. In previous months, real estate loans had been the major source of strength, but in the most recent period gains in business and consumer loans became increasingly important. At the same time, there was only a nominal decline in holdings of Government securities. Demand and time deposits rose, but by a somewhat smaller amount than a year ago. As to Federal funds, the major district banks showed a slight excess of sales over purchases last week and about the same position was anticipated this week. However, almost all of the offerings were accounted for by one large San Francisco bank.

Mr. Irons stated that Eleventh District conditions reflected the trend indicated nationally. He agreed with Messrs. Young and Thomas that growing and broadening strength was to be seen in national activity, with expansion reflected in aggregate demand, consumer expenditures, inventory accumulation, revised plans for capital goods expenditures, and surprisingly large corporate profits. Growing confidence had been particularly noticeable in the Eleventh District. No longer were businessmen, bankers, and others expressing concern about recovery and the possibility of a slackening; they were now confident that business was going to expand substantially and that their problems would be those associated with expansion rather than recovery or regaining lost ground. In the district,

most segments of activity were at record or near-record levels, including department store trade, construction, housing, employment, and industrial production. One area with some uncertainties was agriculture, where prospects were affected by adverse weather in some sections. However, planting was now coming along and agricultural activity was increasing. Another uncertain area was the petroleum industry, which still had problems, particularly in refining. Final product stocks were building up, probably to an excessive amount, but refining was continuing at a high level. Allowables in Texas for May had been increased by one day to a total of 12 days, which meant a further increase in crude production.

On the financial side, Mr. Irons said that credit demands were strengthening in the district, with particular strength in consumer loans, business-type loans, and loans to sales finance companies. Some liquidation of Government security holdings was taking place and a strong increase was noted in deposits of individuals, partnerships, and corporations. All bankers with whom he had talked were referring to a very strong loan demand, and it was expected to be even stronger in the last quarter of the year. The banks, particularly the city institutions, were moving into the period of seasonal upturn in loan demand with loan ratios that already were high. Demand for Reserve Bank discounts had not been unusually heavy, although some large city banks were borrowing on

a one-day basis. The impression was gained that some of the city banks that had not borrowed for a long time might be feeling out the Reserve Bank in view of the prospect of heavier loan demand.

Mr. Irons said that both the national and Eleventh District economic picture pointed toward an increase in the degree of restraint now being maintained rather than any relaxation. He realized the problem posed by the Treasury financing and the impracticability of doing anything overt in the next three weeks. However, he hoped that the Account Management would not be concerned too much by the level of net borrowed reserves. The key was in the distribution and allocation of reserves and the total picture might be more confusing than meaningful. He hoped that the Federal funds rate would be at the discount rate and felt that the Account Manager should be governed in his operations by his sensitivity to the market and the feel of the market. He would attempt to maintain at least the present degree of restrictiveness and would consciously and actively avoid any lessening. Since the policy directive appeared to be getting out of date, it might be in order to review the directive for possible change at the next Committee meeting. If the present trend should continue and the outlook three weeks from today was the same as at present, he felt that it would be appropriate to give consideration to taking overt action to move toward greater restraint.

Mr. Erickson reported that business continued to improve in the First District and that the New England production index showed increases in textiles, paper, leather, and primary metals. While construction awards in March were 9 per cent below a year ago, the first time a year-to-year comparison had been on the minus side since May of last year, there was a $28 million utility award in March 1958 and no award of comparable size in March of this year. Residential construction contracts were 44 per cent ahead of last year. As compared with a year ago, nonagricultural employment was up, but not as much as for the country as a whole. Employment recovery had been most pronounced in the durable goods field, but a number of other industries were still employing fewer people than a year ago. Department store sales continued at a rate 5 per cent above last year. An end-of-March survey showed deposits at mutual savings banks 6-1/2 per cent higher than a year ago and real estate balances 10 per cent higher. Last year's record ski business was exceeded in the season just concluded.

The Boston Reserve Bank last week held its semi-annual Business Outlook Conference, with economists from universities, business, and financial institutions participating, and as usual the participants were asked to make certain predictions. As to gross national product in the last quarter of this year, the estimates ranged from $475 to $493 billion, annual rate, with a

median of $483 billion, while the predictions for the industrial production index in December ranged from 148 to 155, with a median of 151. By and large, the economists were optimistic, but they were concerned about the stock market, competition of foreign producers, the position of the Treasury, and money rates.

In view of the Treasury financing, Mr. Erickson saw no option for the next three weeks except to maintain the prevailing degree of restraint, leaving it to the Manager of the Account to judge the feel of the market. While he was concerned about the facts pointed out by Mr. Thomas and others, at the same time one could not overlook the views presented by Mr. Mills. It was his feeling that the next meeting of the Committee might be one of the most important for a long time.

Mr. Szymczak said it was obvious that the System could not do anything different from what it is doing at present during the next three weeks. In view of the developments in the economy, it was quite natural that one would like to step up the degree of restraint. However, it was not possible to exercise monetary policy in a vacuum, for other considerations must be taken into account whether one liked them or not. As Mr. Mills had indicated, one of the most important and vital parts of the picture at the present time was the condition of the Government securities market, and the condition of that market was a part of the System's

responsibility. The fact that the Government securities market was in the doldrums must be of immediate concern to the System. Another consideration in the picture at present, and a vital one, was the Federal Government deficit, and the question whether or not there would be another deficit made the problem even more difficult. Likewise, the balance of payments situation was of vital concern. Whether or not United States industries had priced themselves out of the market, the fact remained that a lot of dollars were going out of the country and this contributed to the difficulty in formulating monetary policy. Furthermore, unemployment was still high and that was a matter of concern whatever the causes might be. Whether or not monetary policy could do anything about that situation, it was still a factor to be reckoned with. Thus, although the System did not have a clean sheet upon which to write, it must continue to try to do the best job possible with monetary policy. Under present circumstances, Mr. Mills' statement presented a problem that must be considered because the Government securities market was an immediate problem and one which was difficult of solution, as attested by some of the statements made in connection with the current Treasury-Federal Reserve study.

As indicated by the comments of Messrs. Leach and Leedy, Mr. Szymczak said, the System could hardly hope to deal with the distribution of reserves. With the instruments available, the

best it could do was to proceed in a manner that would lead toward stability and offset tendencies toward inflation. At the next Committee meeting, he would suggest discussion of the discount rate, the policy directive, and a study of possible alternative methods of dealing with inflationary trends, especially at times when Treasury operations preclude System action. The last-mentioned problem would, of course, require much study in order to come forth with an answer.

Mr. Balderston summarized the views expressed at this meeting by saying that the consensus appeared to favor (1) continuing the present degree of restraint in order to preserve an even keel until an appropriate date following the current Treasury financing, (2) moving toward greater restraint as soon as possible thereafter, and (3) continuing the present policy directive until the next Committee meeting and at that time considering a possible revision. In order to facilitate discussion, Mr. Balderston suggested that the members of the Committee who favored a revision of the directive at the next meeting submit draft wording to the Secretary of the Committee, so that the latter might present alternative proposals at that time. It had been his feeling on previous occasions that the drafting of language at a Committee meeting was difficult and time-consuming.

Mr. Balderston then said that he would now depart from his effort to state the consensus and present his own view, which was

that the System ought to move toward greater restraint during the third week of the period between now and the next Committee meeting. If the payment date for the current Treasury financing was May 15, he would not think it unfair to tighten in the week ending May 27. As he saw it, that would not pull the rug from under those who acquired securities in the present financing operation because they would have a few days in which to distribute their inventories. At the same time, the System would not lose that week in moving toward a tighter position. Consequently, his own thinking departed somewhat from the consensus of those who had spoken previously at this meeting. He would not wait until the next meeting for the Desk to tighten appreciably.

Mr. Balderston noted from the reserve projections that in the week ending June 3 it was anticipated that net borrowed reserves would increase by some $200 million. This meant that there would be some tightening of an automatic nature of which the Committee could take advantage. Personally, he would be inclined to nudge nature a little and try to anticipate that effect. He then turned to Mr. Rouse and asked whether the latter saw an imperfection in his suggestion.

Mr. Rouse responded that the Committee would be pulling the rug from under the money market if it did not provide enough time for distribution of the Treasury securities. With the

financing operation to be completed only on May 15, he felt that this would mean maintenance of the even keel policy possibly until the next Committee meeting.

Mr. Thomas inquired what reason there was to think that the banks would have a large amount of securities to distribute. In view of cash redemption of maturing bills and certificates, the net addition probably would be not over $500 million. In the circumstances, he suggested that the distribution might largely take care of itself.

Mr. Rouse agreed that there was a chance of this but added that he would hope not to have a positive instruction to do what Mr. Balderston had suggested.

Mr. Balderston said this was the reason he had stated the consensus before presenting his own view, and Mr. Rouse responded that perhaps what Mr. Balderston had suggested would be possible. If it were, he felt sure the Committee would like to see it done. However, he (Mr. Rouse) would not care to have a positive instruction to start tightening at a fixed time regardless of what might develop. Mr. Balderston said he agreed with that completely.

Mr. Rouse then commented that one payment date would be May 11, while the second payment date (May 15) would be for $1.5 billion of tax anticipation bills. The latter, presumably, would be sought after at first by business corporations. At this time,

it was hard to offer an opinion on the distribution of whatever might be offered for the 1-1/4 per cent certificates.

In response to a question by Mr. Balderston, Mr. Rouse said he considered the policy directive adequate in its present form.

Mr. Robertson said that, as he understood the exchange between Messrs. Balderston and Rouse, there was no instruction to Mr. Rouse to begin tightening on May 21. However, if things should just happen to work out right, it would be possible to tighten during the week beginning on that date.

Mr. Rouse replied that this was his understanding.

Mr. Bryan said he agreed fully with Mr. Balderston's statement of the consensus of the meeting. Certainly, it was the unanimous view that an even keel policy should be maintained until the Treasury financing was out of the way. However, he did not know precisely what was meant by an even keel policy. Should it be measured by net free reserves, net borrowed reserves, the feel of the market, or the intuition of the Account Manager?

Mr. Rouse replied that he thought it was a mixture of the things mentioned by Mr. Bryan.

Mr. Robertson said that the matter should not be left on a basis which suggested that the exact figure of net borrowed reserves was the criterion. In the present instance, certainly,

the criterion had to be the feel of the market. If there was any difference of opinion on that score, he felt Mr. Rouse should understand it.

Mr. Rouse said he understood the instruction to be to carry on as during the past three weeks. There were no exact figures indicated, although he would take into consideration a band of figures. If net borrowed reserves got as high as $300 million, or much under $100 million, he would wonder whether the Desk was doing its job properly, but he would be guided primarily by the feel of the market. Therefore, he felt that he had been correct in saying to Mr. Bryan that an even keel involved a mixture of the things Mr. Bryan had mentioned, all within the scope of the general instruction given by the Committee.

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.

With reference to the comments that had been made suggesting discussion of the possibility of some overt action at the time of the next Committee meeting, Mr. Balderston said he supposed that the Presidents would not wish to discuss that possibility with their directors in the meantime. However, if such a discussion took place three weeks from today and an overt action was favored, he felt that the System ought to be prepared to move rather decisively and expeditiously, and as a unit to the extent possible.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, May 26, 1959, at 10:00 a.m.

The meeting then adjourned.

Winfield W. Riefler
Secretary