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, June 16, 1959, at 10:00 a.m.

PRESENT: Mr. Hayes, Vice Chairman (presiding)
Mr. Allen
Mr. Deming
Mr. Erickson
Mr. Johns
Mr. King
Mr. Robertson
Mr. Shepardson
Mr. Szymczak

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

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

Mr. Thurston, Assistant Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Thomas, Economist
Messrs. Jones, Marget, Mitchell, Parsons, Roosa, and Willis, 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. Hostetler, Daane, Tow, Rice, and Wheeler, Vice Presidents of the Federal Reserve Banks of Cleveland, Richmond, Kansas City, Dallas, and San Francisco, respectively
Mr. Anderson, Economic Adviser, Federal Reserve Bank of Philadelphia
Mr. Stone, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Brandt, Economist, Federal Reserve Bank of Atlanta

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on May 26, 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 March 23 through June 10, 1959, with emphasis on the period from May 26, 1959, and a supplementary report covering the period June 11 through June 15, 1959. Copies of both reports have been placed in the files of the Committee.

Mr. Rouse stated that the principal matter of interest at the start of the period following the last Committee meeting was the reaction of the Government securities market to the increase in discount rates. This reaction was about as expected. Prices of notes and bonds were virtually unchanged, while rates on the longer maturities of Treasury bills moved up slightly and rates on 91-day bills increased fairly sharply. The average rate on the 91-day bills in yesterday's auction was 3.28 per cent--40 basis points above the average rate three weeks ago, while the average rate on the 182-day bills was 3.49 per cent yesterday--11 basis points over the average of three weeks ago. The increase in net borrowed reserves to more than $500 million had little or no impact on the market, perhaps because at the time the increase occurred the tone of the money market was not as tight as suggested by those figures. This contrast between the figures on the one hand and the atmosphere of the money market on the other had been

described in the reports sent by the New York Bank to the Committee. Basically, the contrast reflected the effects of reserve distribution, with the distribution generally favoring banks in the money centers; the position of the reserve city banks remained particularly tight, as indicated by their heavy borrowings over the past two weeks. It might turn out, because of the Treasury debt retirement on June 22 and the probable need to put reserves into the market soon afterward, that this contrast will not resolve itself much before the next meeting of the Committee. On the other hand, the contrast could be less sharp if there were large increases in dealer or other loans at the New York banks. As regards the June 22 debt retirement, about one-half of the $3 billion issue of tax anticipation bills was expected to be turned in for cash.

The increase of net borrowed reserves from slightly over $300 million in the week ended May 27 to more than $500 million the following week was accomplished through the operation of natural market factors and did not require any action by the Account. Since the time of the last meeting, in fact, the Account had conducted only one operation (other than rolling over Treasury bills) and that was on Friday, June 5, when about $40 million of bills were purchased in the open market.

By the time of the next meeting the Treasury would have conducted another cash financing operation in which around $3.5 to $4.5 billion of new money would have to be raised. It was expected that

the Treasury once again would be confined to the short-term area in this financing, the terms of which, under present plans, were to be announced late next week.

Reserve projections as of last night indicated that net borrowed reserves for the week ending tomorrow would be around $425 million, although whether this figure was realized or not would depend largely on what happened to the Treasury's balance yesterday and what would happen to the balance today and tomorrow. The projections showed an increase of net borrowed reserves to over $550 million on average for the week ending June 24, largely because of a drop in float, and a further sharp increase over the following two weeks, largely as the result of a currency outflow associated with the July 4 holiday. Assuming that the Committee followed an even keel policy in the midst of the Treasury financing, a substantial volume of reserves would have to be supplied between now and the next meeting.

Mr. Rouse went on to say that the Administration's formal proposals to Congress concerning the debt limit, the interest rate ceiling on Government bonds, and revision of the tax laws to facilitate any future exchange of low coupon, near-maturity issues for higher coupon, longer-term bonds were regarded by the market as highly constructive. The proposal to revise the tax laws, he said, was perhaps more important in the long run than the other recommendations submitted to Congress. The proposals as a whole were believed

to represent a courageous and realistic attack by the Treasury on the difficult problems of debt management that it had faced and that it might well continue to face over the coming months.

Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period May 26 through June 15, 1959, were approved, ratified, and confirmed.

Supplementing the staff memorandum distributed under date of June 12, 1959, Mr. Thomas made a statement substantially as follows with respect to recent economic and financial developments:

Economic expansion continues on a broad front to new high records. Production, sales, income, and employment show further increases. Unemployment in May was below 5 per cent of the labor force for the first time since the end of 1957.

The industrial production index rose 2 points further in May to a figure of 152--20 per cent above last year's low point and 5 per cent above the peak in 1957. Businesses are adding to their inventories at an unusually high rate and have revised upward their plans for new plant and equipment expenditures. Construction shows some signs of leveling off, but at an advanced level.

Output of nondurable goods, which showed little recession, has long been above previous peaks, and production of durable goods has risen faster than in 1954-55.

The gross national product for the second quarter will probably be at least 2 per cent higher than in the first quarter, and about 7 per cent above the peak reached in the third quarter of 1957. Adjusted for price changes, the increase in the past two years has been close to 5 per cent.

Averages of commodity prices have been relatively stable in recent months, but pressures for price increases may be in process of generation. Recent price behavior in many respects has been similar to that in 1955 before the upswing began. Variations within the price structure, moreover, have been of significance.

Private credit demands are expanding in both short-term and long-term markets. The Federal Government will still have very large borrowing needs during the next seven months, even though the fiscal year about to begin will show little or no deficit. Short-term open market interest rates were generally adjusted upward following increases in the prime rate and the discount rate. Yields on medium-term Government securities rose further to new high levels. Adjustments in long-term rates have been more moderate.

Bank loans have been increasing at a faster pace than usual at this time of the year, but banks have continued to reduce holdings of Government securities. Total bank credit expansion, including that of the Federal Reserve Banks, has been adequate to meet gold outflow and provide for a further expansion in the money supply. Nonbank investors, particularly corporations, have been absorbing the bulk of the increase in public debt. Other forms of financial savings have continued to expand, though somewhat more slowly in the aggregate than they did last year.

Abroad, where recovery from a much milder economic recession lagged somewhat behind ours, general economic expansion seems clearly in process. Foreign countries continue to show a strong balance of payments position and to accumulate gold and dollar reserves.

It should not be expected or desired that the pace of general economic expansion will be sustained at the steady rate that has persisted now for over a year. The economy is approaching the limits of resource utilization. The delicate problem that lies ahead is the attainment of a balance in production, consumption, saving, and investment that can be sustained.

The rate of business inventory expansion--at around $8 billion on an annual basis--has already reached a pace that could not be long sustained. This situation is temporarily influenced by anticipation of a steel strike and some adjustment should be imminent. Another question relates to the sustainability of home building at the recent pace. Housing starts of over 1.3 million a year compare with family formation of around 800,000; demolitions, etc. may amount to 400,000. The projected growth in business capital expenditures at considerably below the 1957 level seems to be moderate, but how long will they remain within the bounds indicated? What, on the other hand, will be the over-all effect of the eventual disappearance of the large Federal Government deficit? Can local governments continue to expand their commitments at

the pace of recent years? How long will the remarkably steady growth in personal consumption expenditures continue? To what extent will our economy be affected by the restored competitive potential of other countries?

An important aspect of these future problems will lie in the adjustments of costs and prices. This is not altogether a problem of inflation, i.e., of rising prices resulting from a more rapid expansion in buying power than in productive capacity, although the possibility of inflation presents a threat. The price problem, regardless of inflation, is the essence of the maintenance of stable economic growth. An apparent stability in over-all price indexes that reflects increases in prices of industrial commodities and consumer goods, counterbalanced by declines in agricultural products because of increased supplies, may be building up elements of serious instability. Perhaps there is too much emphasis now on the problems of inflation and not enough consideration is being given to other potent elements of instability that may arise.

Maintenance of balanced growth in the credit area presents formidable problems. Private credit demands are growing before the Federal Government has completed the task of financing the recession-created deficit. State and local government borrowing remains at an all-time high level. On the basis of the recent rate of housing starts, mortgage demands will also continue for a while above any previous volume. Consumer instalment credit extensions are again at a new high, and net expansion in outstandings in April was only moderately below peaks reached at times in the past. Corporate capital issues are still below the levels of the three previous years, but comparable to the highest of earlier years. Unless business capital expenditures expand more than is so far indicated, these issues should continue to be moderate. Short-term business loans at banks have shown contra-seasonal increases in recent weeks, reflecting at least in part the business inventory expansion. The increase for the year to date, however, has not been as large as in 1955 and 1956. If the inventory expansion slackens in the third quarter, borrowing at banks should also moderate.

Much of the large credit demand, including that of the Federal Government, for the year to date has been met from nonbank lending sources. Banks, however, have provided a goodly share with a resulting further growth in the money supply, added to last year's substantial expansion when actual cash needs were moderate. In addition, a considerable portion of the nonbank lending has taken the form of acquisition of liquid assets. The problem for the future will be to refund a portion of these liquid holdings into long-term investment,

or to be prepared to deal with the effect of increased flows of funds should attempts be made to shift into cash for spending. The question is how much liquidity the public will continue to hold without an acceleration of turnover.

In a situation of this sort, it would be dangerous and probably futile to attempt to maintain stability in interest rates. Fluctuations are to be expected until a better balance is attained, and should be permitted to occur. The best that monetary policy operations can be expected to do is to smooth out recognizable temporary variations of significant magnitude in the availability of cash. There might be some provision for long-term growth, but the amounts required for this purpose are so uncertain, in view of possible adjustments in the use of cash, and in any event are so small in any relatively short period of time, that the necessary reserves can be largely obtained through borrowing at the Reserve Banks. When pressures seem to be getting too severe, they can be relieved through open market operations.

One of the striking, though perhaps temporary, developments in recent weeks has been the moderateness of pressures on the money and Government securities markets following the raising of discount rates and the substantial increase in member bank borrowings. To some extent this may have been due to previous overselling in the securities markets. It reflected in part, however, heavy borrowing by member banks early in reserve periods that gave them surplus reserves later in the period. This practice was particularly noticeable in Reserve Districts where discount rates had not yet been increased. These borrowings resulted in the creation of reserves that spread through the market. Operations in Federal funds have been in unusually large volume during the period.

It remains to be seen whether, with the universally higher discount rates, the larger volume of borrowing will be reflected in greater lending restraint by member banks, as well as in interest rates. If member banks show indications of becoming complacent--or less unwilling--borrowers and continue to expand credit, then further action may be needed. On the other hand, if credit should be contracted and market pressures mount unduly, then some relief through open market operations would seem appropriate.

In any event, seasonal and other temporary demands will require fairly substantial additions to the supply of reserves in the last week of June and the first week of July (assuming Treasury financing in the latter week). The usual mid-June liquidity demands may begin to exert some pressures during the next week even with little change in net borrowed reserves from

the recent level of around $500 million. Some of the early July reserve needs will be temporary, and probably could be met through repurchase contracts. Reserves will need to be supplied again in August on a more lasting basis.

Mr. Marget made substantially the following statement with respect to the balance of payments situation:

I might repeat the two figures which in a sense symbolize the international economic performance of the United States last year: an over-all deficit of $3.4 billion, of which $2.3 billion took the form of gold outflow.

As I suggested at the last Committee meeting, the over-all deficit this year seems to be running at about the same level as last year. The gold situation is different. Specifically:

During the first ten days of June, foreign countries purchased $43 million of gold from the United States Treasury and increased their dollar holdings with the Federal Reserve Bank of New York by $96 million. The monthly rate corresponding to these figures was exactly the same as in May, when foreign countries purchased $128 million of gold and increased their dollar holdings with the Federal Reserve Bank by $287 million.

As in previous months, foreign gold purchases in the last six weeks were less than half of those purchases in the corresponding period of last year. However, as in previous months, total gold and dollar transfers appeared to be substantially larger than last year. This development might be hailed as an indicator of unimpaired foreign confidence in the dollar: while foreign countries and international institutions had added only $100 million to their short-term dollar holdings in the first half of 1958, they increased their holdings by $600 million in the first four months of 1959 alone, and apparently did so at an even faster rate in May and June.

From the point of view of the U. S. balance of payments, however, the development is less welcome. The over-all balance-of-payments deficit, of which the gold outflow is only one symptom, has obviously continued at least as large as last year, in spite of an apparent lower level of outflow of U.S. private capital. As long as this continues to be so, a moderation of the rate of gold outflow should not blind us to the need for action designed to correct the clear disequilibrium, not only for its own sake but also for what a failure to do so could mean in the eyes of the foreign monetary authorities who hold such large "deposits" in the U.S. "bank."

And in the list of required actions, monetary policy certainly continues to hold its place.

Mr. Hayes presented a statement of his views on the business outlook and credit policy substantially as follows:

Business statistics becoming available since our last meeting have strongly confirmed the impression of vigorous expansion which was already clear at that time. Of major importance was the further reduction in total unemployment in May, bringing the seasonally-adjusted percentage figure close to a range where it can no longer be regarded as a serious problem. Consumers continue to spend freely, aided by substantial gains in outstanding consumer credit. The sizable growth of manufacturers' and distributors' inventories in April was mainly a reflection of steel accumulation and a build-up of dealers' stocks of cars. However, improved consumption in both of these fields has at once tempered the rise in inventories and has pointed to a need for higher stocks than would have been required a few months ago. In fact, in spite of inventory increases, over-all inventory-to-sales ratios are at the lowest level of the last several years. With continuing expansion of the economy, it now appears less and less likely that a steel strike, if it materializes, will cause anything more than hesitation in the sectors directly affected, while over-all business expansion should continue strong at least through the end of the year.

Economic expansion has reached a point where businessmen have begun to raise their goals for capital spending, although as yet only in a modest degree, and a general feeling of optimism pervades the business community. The latest survey of capital spending plans points to a $1.7 billion rise in the annual rate of outlays for this current quarter, a further $1.1 billion rise in the third quarter, and a continued uptrend through the balance of the year.

Under these circumstances the price situation is still surprisingly steady, especially in the area of raw materials, and sensitive scrap and waste materials. It is encouraging that the weekly index of wholesale prices moved sideways in May and the first week of June. More importantly, its non-food component remains unchanged from three weeks ago. However, we can hardly feel complacent in view of the possibility of an excessive wage settlement in the steel industry, and the probable impact of such a settlement in other industries.

As for bank credit, the rapid growth in loans reported for April at the last meeting, continued in May. The gain at all commercial banks exceeded the May increase for any other recent year, with business loans, real estate loans, and consumer loans all moving up strongly. In contrast with loans, bank investments declined sharply in May as nonbank investors continued to add to their holdings of Governments as the banks reduced theirs.

The further vigorous advance in economic activity indicates that the move toward greater monetary restraint agreed upon at the last meeting of the Committee was fully justified and that a continuation of firm restraint is called for. It seems to me that the discount rate increase was well received. Furthermore, the market was not unduly disturbed by the rather sharp upward movement of net borrowed reserves, recognizing that the distribution of reserves and other factors prevented any undue market tightness. In fact, there has been a consideraly more stable atmosphere in the bond market, aided by the announcement of the Treasury's constructive debt proposals, while the stock market has lost some of its exuberance, at least for the time being.

I think we should stay about where we are in degree of restraint, both because of business and credit conditions and because the Treasury's new cash financing announcement is only some ten days away. I don't believe we should try to set any very exact target or range for net borrowed reserves. For example, a $500 million level of net borrowed reserves may prove to be too high if, as a result of redistribution of reserves, pressures in the central money market should increase materially. On the other hand, if reserve distribution continues as it has been in recent weeks, a figure of $500 million or more might easily be maintained. Hence, I think the Manager should continue to be guided principally by the feel of the market with a view to maintaining approximately the present degree of tension.

Obviously, there is no need to consider either the discount rate or the directive.

Mr. Johns commented that having returned to his desk only recently after an extended absence, during most of which he was out of touch with developments in the nation and the Eighth District, he still had a great deal of catching up to do. However, he found himself quite

in agreement with the steps taken recently to intensify restraint, both through open market operations and the change in discount rates. A period was now being entered during which it is said the System in all likelihood will feel it appropriate to supply some reserves, and it would be his suggestion that in the process of furnishing any such reserves the System guard against any appearance of relaxation of restraint. This might argue in favor of requiring member banks to come to the discount window for a considerable portion of their reserve needs. As Mr. Thomas had suggested, that would raise in many places--and he felt sure in the Eight District--some questions of continuous borrowing. In fact, there were already some such problems, although not of major proportions. Mr. Johns was not sure whether the borrowing banks were or would be complacent borrowers, but they were in such condition from the standpoint of their portfolios of Government securities that they might feel obliged to borrow. At the least, they seemed likely to be somewhat more insistent at the discount window than they had been at some other times. There would certainly be problems of administration of the discount window, but these were not insoluble nor were they problems that the Reserve Bank would approach with reluctance.

Mr. Bryan said there was nothing in the Sixth District that differed significantly from the national picture. Most of the recent district figures, including those on employment and indicators of retail sales, were up on a month-to-month basis. Only in the case

of construction contracts did a considerable downturn appear, but construction contracts were still at an extraordinarily high level, well above 1958 and 1957. The demand for credit was strong and bank loans had risen sharply in the last month.

Mr. Bryan said that he had no quarrel with Federal Reserve policy. He did not believe that the System was in a position to increase restraint materially at the moment, but he felt that it should guard against relaxation. He agreed with what Mr. Johns had said regarding the discount window.

Mr. Bopp said that the general upward trend in business activity continued in the Third District, although at a somewhat slower pace than for the nation as a whole. Fortunately, the unemployment situation was improving gradually. New claims for unemployment benefits in Pennsylvania were now down to the level of 1957, and continued claims were rapidly falling to that level. Three major labor market areas were reclassified upward in May: Reading from D to C, Altoona from F to E, and Atlantic City from E to D. Business and consumer demand for credit was strong, and total loans of district reporting banks rose substantially more in the three weeks ended June 3 than in the same period last year. Business loans were up moderately in contrast with a decline last year, real estate loans showed a steady rate of increase, and loans to consumers had been advancing recently at a somewhat more rapid rate. Total deposits dropped sharply, reflecting decreases in

private demand, United States Government, and interbank deposits, with most of the deposit loss occurring at reserve city banks. As a result, the reserve positions of the large Philadelphia banks, particularly, fell under pressure. The daily average basic deficiency of reserve city banks rose in each of the past three reserve weeks--from $100 million to $150 million in the latest week--and to meet the drain on reserves banks liquidated substantial amounts of Government securities, purchased Federal funds, and borrowed from the Reserve Bank. Developments were gradually getting to the point where discussions with the Philadelphia banks regarding the use of the discount window would be necessary.

Mr. Bopp said that he thought the Account Management had done a good job, that the present degree of pressure was about right, and that it should be continued. In view of the distribution of reserves, attention should be paid to the reserve position of banks outside New York City as well as those in New York. He saw no need to change either the discount rate or the policy directive at this time.

Mr. Fulton reviewed the progress of wage negotiations in the steel industry and pointed out that they suggested the possibility of a strike of rather long duration. On the other hand, he felt that shipments of foreign steel to Great Lakes ports through the St. Lawrence Seaway might have a sobering effect on the negotiations. In general, activity in the Fourth District was going forward at a

high rate. In the machine tool industry, there had been a slow increase in orders, but shipments had not yet increased to any extent because of the long lead time between receipt of orders and delivery. Unemployment was continuing to decline and the only remaining bad spots were in coal regions affected by strike conditions. Retail sales had kept up well and construction remained at a high rate, due largely to residential building. There had been quite a surge in that sector of the industry, but it was not expected to last long; there had been a considerable degree of overbuilding in numerous sections.

Mr. Fulton said that reserve city banks in the Fourth District, like those in the Third, had been losing deposits while country banks were gaining deposits. Reserve city banks were experiencing a considerably heavier loan demand, in contrast to country banks, and borrowings at the discount window in the past week had doubled. District banks as a whole showed negative free reserves during the last half of May.

Mr. Fulton expressed the view that current System policy was both adequate and proper. The only apprehension he had was that a redistribution of reserves might cause the New York money market to tighten, possibly precipitously. Also, at some time in the not too distant future there might be a substantial change in short-term rates if corporations and others should dispose of their holdings of short-term securities with any rapidity. He would suggest continuing

the present feel of the market, and he had confidence in the Desk, which he thought had done an excellent job, being able to maintain about the degree of pressure that had prevailed in the past few weeks.

Mr. King expressed the view that present policy, as reflected in the discount rate and open market operations, was both adequate and desirable. In his opinion, the current degree of restraint was as much as needed at the present time. He agreed substantially with what Mr. Hayes had said about maintaining the present feel of the market and the existing degree of pressure on reserves.

Mr. Shepardson said that, as the reports at this meeting indicated, the general picture seemed to be one of growth and expansion. There was uncertainty, of course, about the situation in the steel industry, and the rate of growth in inventories seemed to be approaching its limit. Those things might result in some slackening; however, in view of the present posture of the Congressional hearings on the Administration proposals with respect to debt management, it seemed to him highly important that the System stand in a firm position, without change in either direction, for the moment. While this would be normal in the face of an impending Treasury financing, he thought that it was particularly desirable in view of the debate going on in the Congress. In other words, it was important that the System show no change of substance in a position that he thought was highly appropriate at the present time.

Accordingly, he concurred in the comments that had been made with regard to holding pressure as nearly as possible at the level that now prevailed, and he would avoid any sign of easing.

Mr. Robertson said he saw merit in the comments that had been made around the table, but he would put emphasis on the side of being firm rather than relaxing. Everyone seemed to be in agreement that there should be no relaxing, but he would want to firm that up. As he saw it, the country was in the midst of a boom; inflation was already here, although camouflaged by the declining trend in the prices of farm products. Definitely, therefore, there should be no relaxation, and personally he would like to see net borrowed reserves moved up to $550 million or $600 million as fast as possible, and then be held there through the forthcoming Treasury financing period. He felt that the System should show absolute confidence in the firmness that had existed for the past few weeks, and if anything become just a little tougher rather than a little easier.

Mr. Leach said that business sentiment in the Fifth District seemed to have achieved a virtual unanimity of optimism. A joint meeting of the Richmond Board of Directors with the branch boards last week brought forth reports of a further improved outlook in many areas and industries. A general absence of reservations concerning the future seemed to be the most important feature of today's

economy, and detailed information on current developments in the district was at least consistent with this optimism. The cotton textile industry was reported to be enjoying its best volume since 1951, and mills were in an excellent inventory and order backlog position. Bituminous coal had shown some further improvement and still faced a favorable inventory situation. Furniture output was holding at advanced levels, although sales were reported to be somewhat spotty for lower-priced lines and in some Eastern industrial cities.

Mr. Leach went on to say that since the last meeting of the Committee the System had moved promptly and effectively, in his judgment, to implement the objective of restraining inflationary credit expansion, both by the increase in the discount rate and the achievement of substantially higher levels of net borrowed reserves. Because of special factors, however, the central money market had not tightened as much as might have been expected. The disparity in pressure between New York City and outside might be reduced in the near future by the disappearance of those special factors, but it probably would not be eliminated for it reflected also the relatively stronger demand for loans outside New York. Outside New York, both borrowings from Reserve Banks and loan-deposit ratios approximated mid-1957 levels.

In view of the degree of pressure now affecting banks outside New York and the forthcoming Treasury financing, Mr. Leach felt that

it would be inadvisable at the moment to push toward further restraint. However, he would continue to maintain about the current degree of pressure, with no easing.

Mr. Leedy stated that he had nothing of particular significance to report by way of changes in the Tenth District since the last Committee meeting. In parts of the district, the weather had been somewhat damaging to the wheat crop and the full extent of the damage was not yet known. As reported earlier, there definitely would be a smaller wheat crop in the district than last year. Pastures and ranges continued in good condition.

The Tenth District, Mr. Leedy said, had been experiencing the same development reported in the Third and Fourth Districts with respect to interbank balances. Between May 6 and June 3, there was a total reduction of $43 million in those balances at weekly reporting member banks and that loss of deposits, together with some other drains, had kept the reserve positions of reserve city banks under considerable strain. The Kansas City Bank continued to have more than its normal proportionate share of member bank borrowings, averaging around $115 million. Since the excess reserves of Tenth District Banks, on average, had been in the neighborhood of $50 million, this meant that the district had accounted for about $65 million of the net borrowed reserves for the country as a whole. It appeared, therefore, that System policy was having a greater effect in the Tenth District than throughout the country generally.

In view of the Treasury financing to be announced shortly, it seemed to Mr. Leedy that there was little, if anything, the System could or should do in the way of changing current policy. He agreed that reserves should be kept under pressure and subscribed to the view that there should be no relaxation. If errors were made, he would prefer that they be on the side of a little more restraint rather than on the side of less pressure.

Mr. Allen reported that the business picture in the Seventh District continued to strengthen, with machinery and equipment producers benefiting from a faster inflow of orders. Makers of transportation equipment--freight cars, diesel locomotives, trailers, and trucks--were in an especially strong position. In steel, further development of foreign competition was noted. Until recently, imports had been confined largely to the low profit lines such as barbed wire and reinforcing bars, but steel users in the Chicago area now were receiving, and were seeking out, offers to sell steel of highly specialized types. There was some thought that this developing competition from abroad might militate against a lengthy work stoppage in the steel industry. In the Chicago area it was thought also that the St. Lawrence Seaway might have a significant impact on the domestic steel industry; heretofore, the cost of shipping foreign steel by rail from the East Coast ports had been high enough to preclude use of any large amounts in the Midwest.

In Seventh District farm areas, Mr. Allen said, there was a strong demand for farm loans, reflecting continued shipments of feeder cattle into Illinois and Iowa at a high rate. In western Iowa the volume of new non-real estate farm loans in May was 40 per cent above a year ago; in eastern Iowa 20 per cent higher. The high level of feeder cattle prices and the large amount of credit involved created some concern that unsound loans were being made. However, barring severe drought and a reduced demand for feeders, the "experts" believed that prices would hold up fairly well through the remainder of the year.

With regard to the automobile situation, Mr. Allen mentioned that the model changeover timing was similar to that of last year. Chrysler would be down for the full month of August; General Motors from about mid-August until mid-September; Ford from late August to late September. The "small cars" of General Motors and Ford were to be introduced at the same time as their other lines, while Chrysler's small car would come out later in the year.

Mr. Allen went on to say that since the Committee meeting, when there was reference to so-called pockets of unemployment, the Chicago Bank had reviewed the Detroit situation more carefully. The number of unemployed in Detroit as a percentage of the labor force reached a high of 19.5 per cent last August, after which steady improvement brought the figure down to about 9.8 per cent in May.

However, looking at the gains in the number of employed persons over the same period, it was clear that reemployment took care of only a part of the drop in jobless and that in the year May 1958 to May 1959 Detroit lost at least 92,000 from its pool of workers. The Michigan Employment Security Commission did not know where they went, but it was apparent that the natural laws were working, that many auto workers became convinced they would not be called back and moved to other areas where expanding business offered employment.

Mr. Allen said that reporting banks in the Seventh District had shown strong increases over the past few weeks in both real estate and business loans. In Chicago, banks reported a rise of $26 million in business loans in the week ended June 10, compared with $21 million a year ago and $25 million in the first tax week last March. The impact of greater monetary restraint on Seventh District banks had not been particularly heavy as yet. The basic deficit position of Chicago central reserve city banks had become somewhat higher than the May average, but the situation was not particularly tight. Moreover, district reserve city and country banks had not shown the pressure evident in some other areas and their borrowing had not risen significantly. In the country bank group there were fewer "problem borrowers" at present than in the past few months. Over all, the use of the Reserve Bank's discount window had been less than what might be regarded as a normal percentage of total member bank borrowings.

Mr. Allen expressed agreement with those who felt that the System should attempt to continue to maintain the present degree of

restraint during the next three weeks. If errors were made, they should be on the side of restraint.

Mr. Deming stated that current economic trends in the Ninth District did not differ significantly from those in the nation. The upswing had been intensified in May and early June, and two exhibits served to highlight the strength of the upward movement. Iron ore shipments in May were the largest for any May since 1953, while electric power used by manufacturing in the Twin Cities and surrounding area in May was 14 per cent higher than a year earlier--one of the largest increases on record. Farm conditions, while less favorable than last year, had improved with fairly widespread rains.

The district banking picture, Mr. Deming said, showed growing tightness at both city and country banks, reflecting sizable loan growth and intensified loan demand. City bank loans were up strongly from year end--a contraseasonal movement--and country bank loans were up about twice as much as in comparable periods in 1957 and 1958. Various measures of bank liquidity, including ratios of loans to deposits, short-term Governments to deposits, borrowings to required reserves, and number of banks borrowing, all reflected rather sharp liquidity decreases in absolute terms and relative to national trends.

Mr. Deming recognized that tightness should be the order of the day against a background of a strongly expanding economy. He felt, however, that the degree of tightness in the Ninth District

was far greater than might be inferred from the tone of the central money market, which, in turn, had been easier than the statistics would indicate. This caused him to be a bit uneasy about the immediate future for, should these differentials continue, greater tightness in the central money market could lead to overly severe pressures outside. Therefore, he would prefer to approach the next three weeks with some caution and without any attempt to seek a given level of net borrowed reserves. Certainly, he would not like to see any greater tightness than at present.

Mr. Mangels said that general conditions in the Twelfth District were about the same as reported nationally. A total of nine labor market areas in the district had been reclassified recently, with the result that only three large cities and seven small areas were now in the substantial labor surplus category. In the Seattle area, Boeing had reduced employment by about 6,500 in the first five months of this year and a continued reduction was expected for the rest of the year, but airplane plants in southern California were looking forward to a steady employment situation for the next few months. Continued employment gains were anticipated in defense-related manufacturing industries. Lumber mills were now operating at about 85 per cent of capacity, and the work-week had been reduced to a four-day basis; with some buyer resistance developing, prices had again been reduced. Labor negotiations in the lumber industry were settled without a strike, although some

increased benefits were granted. Steel operations were at about 93 per cent of capacity and West Coast steel people believed that even if there were no strike, the volume of business would continue high because of consumer demand. There had been some reopening of additional pot lines in aluminum plants in the Northwest because consumers were increasing inventories to some extent in anticipation of a possible strike, and also because of an improvement in basic demand. Residential and nonresidential construction were holding steady; factory construction, in the first four months of 1959, was 65 per cent over 1958, and residential construction was 43 per cent higher. Most residential builders had adequate financing commitments to enable them to feel that they could continue at the present rate for the remainder of the year; however, new commitments under Government guarantee programs were virtually nonexistent. Some money was available from local and other sources for conventional loans at rates about the same as had prevailed over the past few months. While housing sales continued brisk, a sharp increase in vacancy rates was noted. Agricultural conditions were excellent and there was increased buying of farm equipment, fertilizer, and insecticides.

As to banking developments, Mr. Mangels said that during the three weeks ended June 3, when bank loans for the nation as a whole increased $166 million, Twelfth District banks showed a $174 million increase, about $100 million of which was in business loans. Holdings

of Government securities were down $122 million. Bankers reported a heavy loan demand and indicated that they were becoming quite selective in considering loan applications. Federal funds purchases by district banks were about even with sales, while bank debits in the 37 largest cities showed an increase of 15 per cent over 1958 for the first five months of this year. Despite the increase in loans, the ratio of loans to deposits for district banks, at 60 per cent, was below the national average, and also below the ratios prevailing in New York City and Chicago. Borrowing at the Reserve Bank had been rather heavy during the past three weeks, with all but one or two of the large reserve city banks in and out of the discount window. Borrowings of $217 million on June 5 were the largest since November 1955.

Mr. Mangels said he felt that the System was proceeding in the right direction in its program of restraint; however, like certain others who had spoken, he wondered whether the System might not be going a little too far too fast. Net borrowed reserves had averaged over $500 million for the last two weeks, and long-term interest rates were at high levels. The Treasury was facing a seasonal deficit which might aggregate some $7 billion in the second half of the year, so Treasury operations would draw funds from the market and exert pressure. Accordingly, he felt that the System should proceed with caution in order to avoid inflicting too great a burden on the Treasury and impairing the Treasury's ability to carry on its financing operations.

For the coming period, he would suggest that net borrowed reserves not be over $500 million, but rather somewhere between $300 and $500 million. Within that range, it would be in order for the Desk to proceed on the basis of the feel of the market.

Mr. Irons commented that the economic picture nationally was one of great strength and that this was also true in the Eleventh District. Retail trade, industries right down the list, employment, and unemployment all showed further improvement. The agricultural picture also had improved generally during the past three weeks, although rains were posing a problem in some places. On the whole, the district was moving continually to new highs, with a persistent building up of strength.

Mr. Irons expressed the view that the growing economic strength, both nationally and in the Eleventh District, made appropriate the policy of restraint followed during the past three weeks. He would like to see the current degree of restraint maintained. In saying this, he did not have in mind any particular amount of net borrowed reserves, but rather the rate situation and the feel of the market. While he would avoid any easing tendency, neither would he advocate further restraint at this particular time for he considered the present degree of restraint appropriate in light of the economic picture, the financial picture, the Treasury situation, and other factors that entered into the makeup of the market. In general, he

agreed with the statement of Mr. Hayes with regard to policy.

Mr. Erickson stated that business activity in the First District continued to expand steadily, as exemplified by consumer spending, the index of manufacturing, and construction. In April, construction was up 72 per cent over last year; while this was due primarily to one large contract, contracts were up in all classifications and the increase in residential construction was 67 per cent. Compared with a year ago, employment was up strongly in manufacturing, particularly electrical machinery and shoes. For the week ended May 16, insured unemployment was 50 per cent less than last year.

Mr. Erickson then summarized a study of commercial loans and total loans, adjusted, at weekly reporting banks from January to June during the last four years. This showed not only an increase as compared with last year, but also an increase about twice as great as in 1957. In comparison with 1956, however, the increase was only about half as large in both classifications. He then turned to a study of various measures of First District bank liquidity going back to the year 1954, which included not only the Boston banks and the so-called "money market" banks in the district but also weekly reporting country banks and other country banks. This study showed that the total liquid assets ratio for Boston banks for the second quarter of the respective years was 44.2 in 1954, 38.3 in 1955, 34.3 in 1956, 31.1 in 1957, 39.1 in 1958, and 28.0 on June 10, 1959. Loan-deposit ratios for those banks for corresponding dates were

52.8, 56.2, 63.3, 65.8, 59.2, and 66.9. Only in the third quarter of 1957 was the loan-deposit ratio for the Boston banks higher than on June 10 of this year. For weekly reporting country banks, the trend was apparent, with the liquid assets ratio having fallen to 31.4 on June 10, 1959, which was the lowest ratio for these banks going back to 1954. Their loan-deposit ratio, 58.1, was the highest in the series for those banks.

Mr. Erickson expressed the view that the Desk had done a good job in the past few weeks. He would leave it to the Manager of the Account to continue to maintain the present degree of restraint on the basis of the feel of the market.

Mr. Szymczak said that with the reported expansion of the economy, he did not think anyone could say that Federal Reserve policy should be eased. In view of the forthcoming Treasury financing, it also appeared that the System would have to continue to follow the policy that it had been pursuing. In the light of current Congressional debate, he felt that the System was likely to be placed in the position of being held responsible for high interest rates, when actually those rates reflected the situation existing in the economy, including the demand for money. The System, he thought, must be able to explain how interest rates operate because it seemed likely to be blamed for both high interest rates and for inflation. It must explain that fiscal policy, administered prices, and labor policies were essential

factors when considering the over-all financial stability of the economy. While System operations could not be precise as to the amount of reserves available to the banks, they must not provide reserves to such an extent as to lead to inflation. Keeping that in mind, the System must be prepared to answer questions when called upon for explanation of its policy.

Mr. Hayes, in summarizing the meeting, said that he did not perceive basic differences in the views that had been presented this morning. In the light of the optimistic business outlook and existing inflationary pressures, there was a general feeling that the prevailing policy of restraint should be continued. At the same time, attention had been called to a few uncertainties that could not be overlooked. There seemed to be almost nationwide pressure for bank loans, with the situation quite striking in some districts. As a result of this pressure and in view of Federal Reserve policy, the banks were feeling substantial restraint and use of the discount window was increasing. The extent of this restraint appeared to vary quite a bit among districts and to be a good deal less in the money centers than in some other areas. Thus, while it seemed clearly necessary to maintain pressure on reserves, a watchful eye should be kept on the extent of this pressure in some of the districts to make sure that our policies were not having unduly restrictive effects in those districts, even though the New York situation might seem quite satisfactory. Furthermore, one person had expressed apprehension that the pressure might

become severe in the money centers if there should be a change in the distribution of reserves.

The consensus as to the appropriate degree of restraint, Mr. Hayes said, seemed to be that the System should stay about where it was in terms of the feel of the market. This was regarded as justified on the basis of general business and credit conditions, the imminence of the forthcoming Treasury financing, and the fact that the current situation in the Congress behooved the System to be sure of its ground. Thus, the System should give no evidence of easing and instead should follow a firm and steadfast course.

Mr. Hayes noted that a number of those who had spoken expressed the hope that the Desk would strive to avoid errors on the side of ease and that any errors would be on the side of tightness. However, there were also a number who urged caution in appraising the effects of actions on the side of excessive tightness. The consensus appeared to favor staying as close as possible to the existing degree of pressure.

Mr. Hayes also called attention to the fact that there had been very little mention of specific figures of net borrowed reserves. While one or two of those around the table mentioned amounts, the majority appeared inclined to de-emphasize actual figures and give the Desk considerable discretion according to the feel of the market and the distribution of reserves.

Continuing, Mr. Hayes commented that it had been pointed out that the pressure on the discount window was becoming greater in several districts. This was giving or might give rise to problems of continuous borrowing or complacent borrowers. It seemed incumbent upon the Reserve Banks to consider that kind of problem and try to meet it if and as it developed.

Mr. Hayes noted that there seemed clearly no desire to change the policy directive at this time or to change the discount rate. He then inquired whether he had expressed correctly the consensus of the meeting, and there were no comments to the contrary.

Mr. Hayes next stated that it would be in order to confirm the Committee's general directive to the Federal Reserve Bank of New York, adding that he understood it to be the wish of the members of the Committee to renew the directive in its present form. Again, there was no indication of disagreement.

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

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System Open Market Account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs

of commerce and business, (b) to restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities, 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 accomodation 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 agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, July 7, 1959, at 10:00 a.m.

Mr. Hayes reported receipt, through Mr. Shay, Legislative Counsel of the Board of Governors, of an informal request from the staff of the Congressional Joint Economic Committee that certain representatives of the New York Bank, including the Manager of the System Account, present an explanation of technical matters involved in the operation of the Desk at a hearing to be held by the Joint Economic Committee in New York City on August 5, 1959. It was understood that the hearing would be connected with the Committee's study of Employment, Growth, and Price Levels and that this part would be devoted to monetary, fiscal, and debt operations. Mr. Hayes

said that Chairman Martin had expressed the view that it would be appropriate and desirable to comply with the request. Mr. Hayes added that he would like to have the approval of the Committee for the Manager of the System Account and his associates to cooperate with the Joint Committee.

After discussion, it was the view of the Committee that an indication of willingness to comply fully with the request would be in order, provided a formal request from the Chairman of the Joint Economic Committee was received.

Secretary's Note: At this point, Mr. Hayes stated that, acting in his capacity as Chairman of the Committee on Emergency Planning of the Conference of Presidents of the Federal Reserve Banks, he had asked Mr. Harris, the Board's Coordinator of Defense Planning, to provide the Presidents with as much written information as possible regarding what would be expected of the Federal Reserve Banks in connection with Operation Alert 1959. This contemplated that questions might then be brought up by the Presidents when they were in Washington at the time of the July 7 meeting of the Open Market Committee.

The meeting then adjourned.

Assistant Secretary