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, July 7, 1959, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Allen
Mr. Balderston
Mr. Deming
Mr. Johns
Mr. King
Mr. Mills
Mr. Shepardson
Mr. Szymczak
Mr. Bopp, Alternate for Mr. Erickson

Messrs. 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. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Jones, Marget, Parsons, Roosa, and Young, Associate Economists

Mr. Molony, Special Assistant to the Board of Governors
Mr. Koch, Associate Adviser, Division of Research and Statistics, Board of Governors
Mr. Keir, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors

Mr. Latham, First Vice President, Federal Reserve Bank of Boston
Messrs. Daane, Baughman, Tow, and Rice, Vice Presidents of the Federal Reserve Banks of Richmond, Chicago, Kansas City, and Dallas, respectively

Messrs. Marsh and Einzig, Assistant Vice Presidents of the Federal Reserve Banks of New York and San Francisco, respectively
Mr. Anderson, Economic Adviser, Federal Reserve Bank of Philadelphia
Mr. Stone, Manager, Securities Department, Federal Reserve Bank of New York

The Chairman noted that Mr. Erickson was absent but that Mr. Latham was in the building today to attend a meeting of the Presidents' Conference. There being no objection, Mr. Latham was invited to attend the meeting and entered the room.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on June 16, 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 June 16 through July 1, 1959, and a supplementary report covering the period July 2 through July 6, 1959. Copies of both reports have been placed in the files of the Committee.

Mr. Marsh stated that operations to maintain an even keel in the money market within an atmosphere of over-all restraint had been generally successful. The money market remained generally tight, with the effective rate on Federal funds at 3-1/2 per cent, except for three days when the New York money market eased, reflecting an accumulated excess of funds and the effects of proceeds of redemptions of tax-anticipation Treasury bills which ended up in New York. The money market had been particularly tight during the past few days, primarily because of tighter reserve positions of New York City banks that lost reserves to other parts of the country after the end of the month.

Open market operations had supplied $338 million of reserves net on a commitment basis since the date of the last Committee meeting. Outright holdings of Treasury bills in the System Open Market Account were up by $311 million, while repurchase agreements outstanding increased by $27 million net; new agreements were put on during the period but were almost matched by maturities and withdrawals. Looking ahead, additional reserves would have to be supplied to cover the increase in reserve requirements on Thursday, July 9, and the following Thursday, July 16, as a result of payment for the new issues of Treasury bills. The amount of reserves needed was uncertain and would depend on the amount of the new issues that moved out of bank into nonbank hands by the payment dates, a development which was very difficult to measure.

Interest in the Government securities market, Mr. Marsh said, focussed on the new Treasury financing. The total of $5 billion Treasury bills offered was larger than had been expected by the market, producing considerable caution in the first auction last Wednesday, July 1. Initial rate ideas for the March tax bill auctioned on that day were below 4 per cent but moved higher as the auction approached, and the result was an average rate of 4.07 per cent with the stop-out at 4.14 per cent. Commercial banks were willing to take the March bill against tax and loan account credit but only on a wide scale of prices since they were doubtful as to how long they could hold the bills. There was fairly active secondary trading in the new March bills at rates around 4.25 - 4.30 per cent. Dealers expected a good continuing interest in that issue but the market was cautious and pessimistic about the auction of July bills tomorrow. Banks were even more uncertain of their ability to hold the July bill and feared that corporations would not be buying those bills as rapidly as the March bills. Some banks were considering tendering at a high rate with the idea of holding the bills and selling other securities to meet tax and loan account calls. Early auction ideas ranged out to 4-1/2 per cent on the tail and as low as 4-1/4 per cent for the average. The poor prospect for the auction of July bills was aggravated by the results of yesterday's auction for regular Treasury bills. Interest for both long and short bills was light, resulting in an average rate of 3.26 per cent for 91-day bills and 3.96 per cent for 182-day bills, with a long tail on both issues and awards to dealers of $402 million 91-day bills, or a total of $587 million. This result probably would produce another upward adjustment in bill rates and higher rate ideas for tomorrow's auction.

Mr. Marsh went on to say that the significance of these events for the Treasury was serious, since the bottom of the barrel appeared to have been reached. If the Wednesday auction for the

July bills should result in an average rate between 4.30 and 4.40 per cent, it would mean a secondary market well over 4-1/2 per cent. This latter rate, in turn, if converted to a true yield basis, would mean 4-3/4 per cent for a one-year interest-bearing certificate. This rate, of course, related to the Treasury's August refunding and to the cash borrowing that the Treasury would undoubtedly have to undertake in mid-August to pick up attrition on the refunding. The Treasury probably would have to come back to the market early in October for additional cash, leaving only a small open period between operations.

Mr. Marsh pointed out that the problems he had described were mainly in the short-term market--the area in which the Treasury was forced to borrow--and that the balance of the market had acted reasonably well. There had been gradual upward adjustments in longer-term rates but no drastic price declines, despite the probability that commercial banks would have to sell more intermediate issues over the balance of the year as loans increased.

For the record, Mr. Marsh noted that legislation raising the public debt ceiling had been passed by Congress and signed by the President, but with a limit less than the Treasury expected, and that no bill to eliminate the interest rate ceiling on Treasury bonds had yet been reported out by the Ways and Means Committee.

It seemed clear, he said, that the System Account would have to buy Treasury bills in the next day or so to provide reserves needed on Thursday, July 9, as a result of the Treasury's financing operation. The chances were that the Desk would decide to buy those bills sooner rather than later in view of the unsatisfactory state of the Treasury bill market and the imminence of the Treasury's next financing operation, that is, the auction tomorrow.

Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period June 16 through July 6, 1959, were approved, ratified, and confirmed.

Supplementing the staff memorandum distributed under date of July 2, 1959, Mr. Young made a statement substantially as follows with respect to recent economic developments:

Economic activity domestically continues its vigorous expansion. Industrial production for June has apparently advanced further; as a preliminary guess, to 154 per cent of the 1947-49 average. GNP estimators are much more certain than earlier that the second quarter GNP will be up $10 billion from the first quarter in both current dollar and constant dollar terms.

Consumer demands are evidently still expanding, particularly for durable goods. Sales of new cars, domestically produced and imported, are estimated at close to 600,000 units for June, or a seasonally adjusted annual rate of 6.6 million. Sales of household durables, which in May had leveled off, again expanded in June. For the second quarter as a whole, sales of these goods are expected to be 3 per cent ahead of the first quarter and 9 per cent higher than a year earlier. Sales of all goods at department stores are apparently running slightly ahead of May sales, and second quarter sales are estimated to have reached new record levels, some 8 per cent ahead of last year's second quarter.

Expanding consumer demand has been fed in recent months by rapid expansion of consumer instalment credit. The

April-May increase represented an annual rate in excess of $5 billion. While outstanding automobile credit has been expanding rapidly in recent months, it has not yet re-attained the rapid expansion rate set in 1955.

Seasonally adjusted new orders at durable goods manufacturers fell off by 4 per cent in May after rising 40 per cent from February 1958 to April of this year. Over half of the decline represented a drop in orders for primary metals; the balance was concentrated in electrical machinery and aircraft. Thus, the decline was accounted for by lines in which new orders had undergone a rapid run-up earlier this year.

Manufacturers' inventories continue to build up at a rapid pace. The May increase was $400 million, compared with $600 million each in the two preceding months and a $500 million pace of build-up earlier. Altogether, manufacturers' inventories have now regained half of the recession liquidation.

Construction activity again eased off in June from earlier higher and record levels. For the past three months, the value of new construction has declined about 2/3 per cent a month. Public construction and private residential construction both fell off in June; private industrial and commercial construction, however, rose further, the latter to a new high. Some increases in urban vacancy rates have been reported recently, both for rental housing projects and for office buildings.

Labor market developments have continued to show strength, but June gains in employment were probably smaller than in April or May. Also, the seasonal influx of students, summer workers, and graduates has been operating to lift the number of job seekers. The seasonally adjusted unemployment rate is expected to show little, if any, change. Continued unemployment claims are still running higher than in comparable months of 1956 and 1957; new claims, although close to 1957 levels, remain somewhat above levels of 1956. A matter of some social interest is the large number of currently unemployed persons without previous work experience--about 1/6 of the unemployed work force and substantially more than in the comparable 1950 and 1955 recovery months. This large fraction reflects emphasis in rehiring of previously laid-off workers.

The question of a steel settlement or strike remains a major industrial uncertainty for the period immediately ahead. While little progress in the steel negotiations has been reported, it is rumored that the union is now prepared to scale down its demands to an increase of about 3 or 4 per cent, or roughly 10 to 12 cents an hour. This is about in line with the recent settlement in the paper industry which provided a 3 per cent general wage increase for next year and a 4 per cent increase for the following year.

The average of all wholesale prices has changed little in recent months. Averages of both industrial commodities and farm products have been stable at levels reached earlier, with industrial commodities up 2-1/2 per cent and farm products down 5 per cent from the spring of 1958. Upward pressures on prices have recently become fairly pronounced, it is reported, for some processed industrial materials and for such finished products as furniture, carpets, and apparel.

The consumer price index, which edged up slightly in April and May, is expected to show a further slight rise for June.

United States exports rose moderately in April and again in May. The April increase reflected some rise in machinery shipments but the May increase was accounted for entirely by larger agricultural exports. Imports also increased in May, with the increase quite sharp. The annual rate of both exports and imports was about even--close to $16 billion. Continuing deterioration in the balance of payments was reflected in further large net transfers of gold and dollars, amounting to from $400 to $500 million in rounded figures, excluding transfers to the International Monetary Fund.

In industrial countries abroad, expansion in economic activity has become more widespread and has gathered momentum. This extension of industrial revival abroad is clearly benefiting materials-supplying countries, and thus is working indirectly as well as directly to strengthen markets for United States products. On the other hand, grievous financial instability in several important Latin American markets continues to work as a partial obstruction to improvements in United States shipments southward.

With respect to prospects ahead, domestic economic advance has now reached a point where some slowdown is to be expected. Three major expansive influences have probably now passed their maximum strength--residential construction, inventory accumulation, and gains in industrial productivity. Consumer spending continues to enlarge and business capital expansion may now gather momentum. These will undoubtedly suffice to keep the economic advance proceeding, but at a slackening rate of gain. It is worth noting that the margin of unused industrial capacity for producing industrial materials and finished goods is probably significantly wider than it was at a comparable point in the preceding economic cycle. This implies both more margin for further cyclical expansion of output and more supply restraint on upward price pressures than experienced in the last economic cycle. In any case, we may hope so.

Mr. Thomas presented a statement on financial developments as follows:

At the last meeting of this Committee, the general consensus as to System operations was expressed as "feeling that the prevailing policy of restraint should be continued" and that the System should follow a firm and steadfast course and give no evidence of easing. The record of credit developments during June indicates that the policies followed were appropriate and perhaps also effective in accomplishing desired objectives.

Money markets have been under pressure because of continued vigorous credit demands. Loans at city banks during the past five weeks increased more than in the same period of any other year. At the same time bank deposits declined or failed to show any more than the usual seasonal increase. The restricted availability of bank reserves made it necessary for banks to reduce their holdings of securities by unusually large amounts in order to obtain funds to make loans. Banks also maintained a high level of borrowings throughout the period, which kept them under restraint.

On the basis of preliminary estimates, it appears that the money supply, seasonally adjusted, showed no increase in June, following only a small increase in May. For the first half of the year the growth was at an annual rate of about 2 per cent, and for the past twelve months it was 4 per cent. For member banks alone, the semimonthly daily average figures of demand deposits adjusted, after allowance for seasonal variations, declined in the first half of June, and tentative estimates for the second half indicate a further decrease to around the level of the early weeks of this year.

Credit expansion during June was fairly general. It was pronounced in business loans at banks, particularly to sales finance companies, in capital market borrowing by State and local governments, in mortgages (at banks as well as at other lending institutions), and in consumer credit (also substantial at banks). Bank loans on securities showed only a small increase. The Treasury, on balance, was a supplier of funds to the economy in June. The surplus, resulting from June tax receipts, was exceeded by retirement of debt, including tax bills used to cover income tax payments. In July, however, new borrowings of $5 billion will exceed the cash deficit and net retirements of savings bonds.

Credit demand pressures, together with limitations on the availability of reserves, have resulted in further interest rate increases. Long-term interest rates have shown little further change since mid-June, except for a pronounced rise in yields on municipal bonds reflecting the large volume of recent new issues in this area. The sharpest increases have been in yields on issues maturing in from six months to about five or six years, reflecting in part additional Treasury offers of bills in the 6- to 12-month area. On the basis of actual effective yield to purchasers of the new bills, it may be said that the one-year rate is now about 4-1/2 per cent. Issues in the 4- to 6-year area are selling at higher yields. At the same time yields on 90-day bills have actually declined, as a result of the desire of purchasers to maintain liquidity, together with a reduction in the current supply of issues in this area through redemption of tax bills in June.

The further pronounced increases in interest rates, together with the leveling out of the money supply, might raise some question as to whether current credit policies are unduly restrictive, or might at least induce complacency as to the effectiveness of these policies in restraining expansion. Before any such views are accepted, however, the situation needs further analysis.

In the first place, as already pointed out, demands for credit from the private sector are so great that any increased availability of reserves would be quickly transmitted into additional credit and an increase in the money supply. Funds for such demands as banks now meet are obtained by selling Government securities and thus absorbing other supplies of funds without creating new money. The rise in interest rates is an evidence of these demand pressures. Any attempt to prevent rising rates would result in further credit and monetary expansion.

Another reason why the slackening or halt in the money supply expansion is no reason for complacency or relaxation of restraints is that the economy in general remains very liquid because of the growth in liquid assets other than demand deposits and currency, i.e., in various forms of money substitutes. Although the growth in time deposits at commercial and mutual savings banks has slackened in the past year, it is still at least normal and the total amount outstanding is quite large. Shares in savings and loan associations have recently shown an accelerated increase. In addition, savings and loan associations are borrowing from the Home Loan Banks to expand mortgage loans even more rapidly than their savings shares, and the funds for the purpose are being raised by the Home Loan Banks in the short-term market.

Of prime importance as a medium of liquidity has been the increase in holdings of short-term Government securities by nonbank investors. The increase in the public debt in the past year, and also in the past two and three years, has been in issues maturing in less than five years, with a large part in the one-year maturity area. Although bank holdings of Government securities have declined sharply in recent months and are now only a little larger than in 1957 and 1956, it cannot yet be said that the financing of the deficit has been entirely noninflationary. Many of the securities are held as liquid assets--as money substitutes--not as the investment of savings. The bulk of the increase in the debt has been absorbed by corporations and by miscellaneous investors, which probably view their holdings as liquid assets. Although business holdings of liquid assets have increased, more recently their less liquid assets such as receivables and inventories have also been rising, as have their current liabilities, and their liquidity ratios are now declining. Businesses may soon need to draw upon their liquid assets in order to finance further expansion.

The task of getting the large liquid holdings of securities absorbed into the savings structure still lies ahead. It will continue to be a major problem of refunding, even after the total outstanding debt ceases to expand. It remains to be seen what level of interest rates will be required to accomplish the desired funding of this large floating debt. In any event the rate must be established by the market as effort is made to accomplish a refunding and not be predetermined on arbitrary standards. This country now faces a problem that has created serious difficulties in many other countries in handling a large floating debt.

In the meantime, the existence of these money substitutes which can be shifted more or less readily in the market lessens the needs for the creation of additional money in the narrower sense of demand deposits and currency. Such shifts facilitate increases in the activity of existing money. The task of the System is to guard against the creation of additional money that will provide an undue stimulus to the economy. Until there is evidence of inadequate growth in output and employment or of a broad weakening in commodity prices, restraint on expansion of bank credit will be in order. The degree of restraint that has prevailed during the past month would seem to be about the right amount; it probably does not need to be tightened under the circumstances, nor should it be lessened.

The immediate task ahead is to provide first the reserves temporarily needed for bank underwriting of the new Treasury bill issues being sold this month. A large part of these needs has been met by System operations in the past week, but some further purchases will evidently be appropriate during the next week. After that, operations may be relatively small or negligible until late August, when another Treasury financing is scheduled, and in September when holiday currency needs and seasonal credit demands will have to be accommodated.

At the request of the Chairman, Mr. Marget commented substantially as follows with respect to the balance of payments situation:

I would only emphasize a few of the conclusions to be drawn from some of the figures presented by Mr. Young. The main one is that although gold outflow continues to be markedly less than it was at this time last year (in June, for example, foreign countries bought only about half as much gold as they did in June 1958), the figures for gold and dollar outflow--over a billion dollars in the second quarter--suggest that our balance of payments performance is still very disappointing. This is confirmed by our direct figures for exports and imports. In May, for example, the value of our exports was not significantly greater than the value of our imports. In that month, in other words, our "export surplus," in one sense of the term, virtually vanished. If this were to continue, it would mean that most of our private capital export and our aid programs would result in an equivalent outflow of gold and dollars. One hopes that this will not in fact continue; but the truth is that the improvement in our over-all balance of payments for which we have been hoping has not yet put in an appearance.

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

The current business picture continues decidedly strong, but there is as yet no evidence of a run-away boom. The mild spottiness which has shown up here and there in recent statistics--notably a decline in new orders and a levelling off of construction awards, housing starts, and inventory accumulation--is to be expected after many months of rapid advance.

While the steel strike threat represents a major uncertainty, there is little likelihood that it could cause more than temporary hesitation in the upward business movement. Current estimates of steel inventories suggest that the accumulation in the first half of this year has not been as large as the steel-using industries had sought to achieve and that inventories are significantly below those of mid-1956. Thus a prolonged shutdown would presumably pinch more severely than in 1956, and the poststrike rebound could be even sharper than in that year.

Retail sales are running about 10 per cent ahead of a year ago, whereas personal income is about 7 per cent ahead. The sharper gain in consumption appears to be mainly an outgrowth of more active use of consumer credit rather than any fall-off in savings in terms of liquid assets. On a seasonally adjusted basis, the May increase in total consumer credit was at an annual rate of $6.5 billion, just about equal to the rise for the full year 1955. It seems to me that the trend of consumer credit from here on will bear very close watching.

Export figures for May showed some improvement, possibly reflecting economic gains abroad--but with imports also up, there was no appreciable change in the aggregate of gold sales and additions to foreign dollar holdings.

The price indices are still encouragingly steady, but there is no ignoring the possibility that stronger pressure may be building up in various industries either because of demand nearing capacity limits or because of diminishing productivity gains and a consequent growing cost push. Fortunately there are powerful offsetting influences, including monetary and fiscal restraint, some continuing progress in productivity, the discipline of foreign competition, and keener public awareness of the need to curb inflationary pressures. The steel settlement can of course have a crucial influence on general price trends.

Turning to bank credit developments, we find bank loans continuing to expand vigorously in May and June. The increase in total loans at all commercial banks in May was again a postwar record for the month. Again the gains were spread among business, consumer, and real estate loans. With the banks continuing to liquidate holdings of Government securities rapidly in the past two months, the gain in the money supply has been held to modest proportions--an annual rate of about 2-1/2 per cent in May and in the first 5 months of 1959. Growing bank illiquidity contrasts with improving liquidity of corporations and possibly even of consumers, despite the sharp upward trend of consumer credit.

A full schedule of Treasury financing will complicate our policy decisions over the coming months. It is now expected that some $2 billion of cash must be borrowed before mid-August, in addition to the sizable August refunding to be announced later this month. Thus it will be at least 5 or 6 weeks before we are faced with a so-called "free period" for credit policy.

It seems to me that the healthy tone of the economy and the ebullience of credit demands provide ample justification for the present degree of credit restraint. However, I would not like to see any intensification of the restraint in view of the major steel uncertainty as well as the Treasury situation. For the next three weeks, therefore, I think we should pursue our present policy, with the usual leeway for the Manager to be guided by the feel of the market. By the same token there should be no change in the discount rate or in the directive.

Over the longer term, I can see the possibility of serious policy problems arising, for example, if corporations should be unable to keep on absorbing the continuing flow of additional short-term Treasury offerings, and particularly if they should begin to liquidate Government securities on balance. Moreover, the Treasury's financing operations are forcing progressive upward adjustments of short-term market interest rates. This trend may lead to a further rise of the prime rate, especially if the yield on long Treasury bills rises above the 4-1/2 per cent mark, and may also eventually make a discount rate change imperative even if the "free period" for action on our part is not as long as we should like. That, however, is a problem for consideration at some future meeting.

Mr. Irons said that the Eleventh District economic situation continued strong, the only problem area being in the petroleum industry. Allowables in Texas had been cut back to nine days for July, and he did not anticipate a substantial or quick increase. Stocks were still large, particularly some product stocks, and it appeared that the oil industry was likely to continue to have problems for some time. While there had been a slight tapering off in residential building, construction was still high. The current declines were moderate and might be temporary. In all other areas, including employment and retail trade, the advance in activity had continued, and at a rather substantial rate.

Loan demand, Mr. Irons said, was extremely strong and had been developing at a time when bank loan ratios were already high. An increasing amount of borrowing from the Reserve Bank was being noted. Until about two weeks ago, the Dallas Bank's share of total member bank borrowings had been around 3 to 3-1/2 per cent, but more recently it had increased to about 7 per cent of the System total, with rather steady and increasing borrowing on the part of the larger city banks. Deposits had been rising a little. Another development of concern to the district banks was the recent increase to 4 per cent in the rate of dividends paid by savings and loan associations. Some bankers felt that in the circumstances they should be permitted to pay more than 3 per cent on time and savings deposits, while others would not care to pay more. As yet, it was possible to gauge the effect of the action by the savings and loan associations. An indication of tightness in the position of the banks was the fact that there was already some borrowing at the Reserve Bank by West Texas banks in connection with the financing of the cotton crop. Usually, those banks would begin to borrow around the end of July or the first of August, and then continue to borrow steadily or intermittently until about the first of October. In summary, the banks in the Eleventh District were not very liquid at the present time, whereas nonbanking corporations seemed to have a high degree of liquidity. Among businessmen there was general optimism as to the advance of economic activity, with perhaps a tinge of concern that the situation might get beyond control.

As to policy, Mr. Irons said that the period just ahead seemed likely to be a difficult one, as did the longer-run period. Continuation of the present degree of restraint seemed appropriate in terms of the economic situation, and he did not see how greater restraint would be feasible at present in view of Treasury operations in prospect. On the other hand, one could not justify relaxation on an economic basis, for any tendency to ease would quickly find the reserves made available put to effective use in further expansion of credit. It seemed desirable to continue the present policy with considerable leeway given to the Manager of the Account, who should try to avoid an appreciable change in the degree of restraint. Mr. Irons agreed with Mr. Hayes that there might be substantial problems over the next few months due to the Treasury situation and heavy credit demands.

Mr. Mangels said that, although there were variations between industries, most recent Twelfth District figures reflected a continuation of advance in over-all economic activity. At the end of May, unemployment in California stood at 4.2 per cent; while the percentages were somewhat higher in Oregon and Washington, 5.4 and 6.8 respectively, improvement was noted in both States. Retail trade continued to increase and automobile sales continued at high levels.

For the past three weeks, Mr. Mangels said, Twelfth District bank loans increased $160 million, spread over all categories of loans, while Government security holdings were down $112 million. Loan demand was very strong and was expected to continue strong through the remainder of this year. Considerably more emphasis was being placed by the management of banks in instructions to their loan officers to be more selective with respect to applications, although one large bank indicated that the volume of real estate loans had about reached a peak. Demand deposits showed virtually no change during the past three weeks, while savings deposits were up. One large bank reported that the June increase in savings accounts was the largest in its history. Borrowing at the Reserve

Bank had been rather consistent and at times quite heavy, although borrowings fell to a total of $44 million last Thursday. District banks were substantial net purchasers of Federal funds last week, and it was estimated that net purchases this week might be around $500 million. Some bankers had commented recently to the Reserve Bank that they must sell more Government securities, although they did not like to sell because of the losses involved.

Mr. Mangels indicated that he concurred in the views expressed by Messrs. Hayes and Irons with respect to open market operations during the coming three weeks.

Mr. Deming reported that the upswing in economic activity in the Ninth District continued strong. Employment continued to improve, with the June level estimated to have passed the prerecession high, although unemployment, because of labor force growth, remained well above 1957 figures. Retail sales, including automobiles, had been strong in recent weeks, electric power consumption was up sharply, farm cash receipts were running about 5 per cent ahead of last year, and the general business tone was one of optimism. Actually, the optimism among businessmen seemed to have grown much stronger in the past couple of weeks. There was some evidence, however, that the rate of economic growth in the district might slacken in the third quarter, with agricultural income becoming less favorable relative to a year ago and the pace in mining and construction activity settling down a little. There was evidence, too, that Federal Government expenditures in the district might lessen somewhat as present large contracts were fulfilled. Drought over much of the district this spring had practically insured that crops would be smaller than last year; rainfall and temperatures from now on would have to be better than average to insure a normal crop in 1959. General rain across the district in late June came just in time to check serious soil moisture deficiencies in much of the area.

Mr. Deming said that Ninth District member banks, both city and country, continued to lose liquidity during May, apparently with more rapidity than had been the case nationally. In June, the ratio of loans to deposits continued to rise at city banks. A more rapid proportionate increase of loans than of deposits had raised the ratio at the city banks, while at the country banks a decline of deposits coupled with additional loans caused the ratio to rise.

Mr. Deming commented that he had no difference of opinion with the prescription for policy stated by those who had spoken thus far.

Mr. Allen stated that Seventh District businessmen continued quite optimistic. A recent roundup of views by a large district bank indicated that expectations in most lines were even more optimistic at midyear than last December, the exception being petroleum, for which the appraisal was revised from "good" to "fair." Employment in the Chicago area continued to strengthen, one evidence being the amount of advertising for "help wanted." The lineage of such ads in four major newspapers in June showed an increase for the sixth consecutive month and was 131 per cent above the recession low in April 1958. This situation was reflected in the increasing difficulty being experienced by the Reserve Bank in recruiting acceptable employees for clerical jobs. One large steel company estimated production for the country at 64 million tons during the first half of 1959, and at 51 to 53 million tons during the second half if there was no strike. The estimated total for the year of about 116 million tons would compare with 85 million tons in 1958 and 112 million tons in 1957.

Consumer credit, Mr. Allen said, was playing an important role in the retail trade picture, as indicated in the memorandum from the Board's staff. The personal "overdraft" credit lines offered by an increasing number of banks appeared to be popular, one large Chicago bank reporting that it had $500,000 outstanding three weeks after inauguration of the plan. The average line of credit granted was close to $2,000, while the average amount borrowed was around $700. Residential construction activity varied greatly in the Seventh District. Building permits issued in the Chicago area during the first five months were up 54 per cent over early 1958, but Milwaukee's gain for the same period was only 5 per cent. For the first four months, Detroit showed a 33 per cent increase.

Mr. Allen went on to say that recent district banking data reflected strengthening demands for credit by businesses and individuals, with a continued tendency for the impact to fall somewhat more heavily on banks outside the central money markets. There was still no evidence of sustained reserve pressure at the large money market banks. The basic reserve deficit of the Chicago central reserve city banks had not been unusually large and had improved in the past two weeks. Last week, sales of Federal funds exceeded purchases. Borrowing at the Chicago Reserve Bank by reserve city and country banks had varied little over the past few months, but two large Chicago banks indicated recently that their own accommodations to country banks had reached the point where they were telling country member banks that they should do their borrowing at the Reserve Bank. This, of course, had happened before when money was tight. When it was easy, the large city banks in the district urged the country banks to borrow from them on attractive terms.

Mr. Allen said he was glad that Mr. Thomas had set forth the reasons why System policy should not be considered unduly restrictive and that he found himself in agreement. All things considered, however, he felt that the degree of restrictiveness had been sufficient. Like those who had already spoken, he believed that it should be continued at about the same level.

Mr. Leedy reported that Tenth District conditions continued to be favorable. The district wheat harvest was nearing completion, with an estimated yield 23 per cent less than last year, when the crop was unusually large. This meant that this year's crop would be about 25 per cent greater than the average of the past 10 years. Pasture and range conditions remained satisfactory except in a small area west of the Continental Divide. Cattle slaughter was below last year's levels, indicating a continuation of the rapid build-up of cattle numbers that was now becoming the subject of some comment within the livestock industry. The unemployment picture showed further improvement, all States in the district except Missouri registering levels of insured unemployment as of June 13 below those recorded three weeks earlier. The rates of insured unemployment in all of the States were below the national average. In May, construction contract awards were 27 per cent above last year, but for the first five months of the year contract awards reflected exactly the same percentage of increase as for the nation as a whole. During the four weeks ended June 27, and for the year to date, department store sales were 10 per cent above year-ago levels; during the period since the first of this year only the Seventh and Twelfth Districts showed increases equal to or in excess of that in the Tenth District.

Mr. Leedy went on to say that Tenth District banks continued to experience an extremely heavy demand for credit, largely in the business and consumer loan categories but with considerable strength also in real estate loans. This had been true both at weekly reporting banks and at country member banks, with strong demand also for agricultural loans at the country banks. There had been some liquidation of investments, including Government securities, but analysis of the principal borrowers at the Reserve Bank indicated a reluctance to liquidate Government securities on account of price declines. Average daily borrowings at the Reserve Bank continued high and were slightly over $124 million during the three weeks ended July 1, compared with $118 million in the three weeks ended June 10.

Mr. Leedy said that he had no variation to suggest from the views already expressed as to policy. Because of the Treasury situation, it appeared that the System was pretty well boxed in. Furthermore, the economic picture seemed to indicate that the policy the System had been following was the proper one for the period immediately ahead.

During the course of Mr. Leedy's comments, Chairman Martin was called from the room.

Mr. Leach stated that the broad advance of business activity was continuing in the Fifth District. Further over-all gains in nonagricultural employment and manufacturing man-hours were achieved in May despite slight declines in West Virginia, where insured unemployment was already the highest in the nation. In the rest of the district, increased job openings occurred almost across the board. The annual vacation shutdown of the textile industry, for a shorter period than in the last two years, found mills with substantial backlogs of unfilled orders, low inventories, and firm or rising cloth prices. Substantially increased appropriations for textile plant and equipment reflected the improved situation and prospects in the industry. New orders received by district furniture makers rose sharply in May, and reports of the June furniture market indicated continued improvement. Bituminous coal production rose to a peak for the year in the first three weeks of June and was slightly higher than a year earlier, although well under the comparable period of 1957. Bank loan demand, which had been strong in recent months, was as strong or stronger in June. Daily average borrowings from the Richmond Reserve Bank continued to increase in June and were at the highest level of any month since December 1952.

Mr. Leach said that he saw no reason for an immediate move toward further restraint and that he felt the Treasury financing clearly called for an even keel policy. This meant that continuation of the present degree of restraint was in order.

Mr. Mills said that, as he viewed it, there were two contrasting ways of interpreting the economic material submitted by the staff. The first way was to regard the pause that had taken place in the upward movement of some economic factors as a natural development stemming out of the earlier expansive push upward. The second way was to regard that pause as the result of cumulative pressures that had been initiated earlier by System policy actions and would tend to accelerate unless there was some modification of policy. Personally, he leaned toward the second interpretation. He was of the opinion that at this juncture, when the Treasury had already been to the market and would come to the market again tomorrow, and those operations demanded the injection of reserves in support of commercial bank tax and loan accounts, an opportunity was afforded to modify unobtrusively the penetration of System policy and the pressure that had been applied to restrict credit. In other words, the reserves that must now be supplied might very well be left at the disposal of the commercial banking system for a longer period than had been permitted heretofore as a means of granting some relief from the pressures that System policy actions had generated.

Along those lines, Mr. Mills said, he was concerned by the fact that the marginal increment in the total volume of Federal Reserve credit outstanding, as compared with a year ago, could be accounted for by an increase in borrowings at Federal Reserve Banks. He could not believe that that was an entirely healthy situation, particularly when there appeared to be a growing trend toward continuous borrowing. This raised the point that if Regulation A, Advances and Discounts by Federal Reserve Banks, was to be adhered to as a guide by both the Reserve Banks and the commercial banks, it would be necessary at some point to police the borrowings of the banks more strictly than in the past. Where reliance was being placed on the reserves obtained through borrowings at the Reserve

Banks as the basis for such expansion of Federal Reserve credit as had been permitted, the question that arose in his mind was whether the time had not come when some portion of the reserves provided through the discount window should be provided, in substitution, by the provision of reserves through open market operations. Unless such a course was followed, there was a possibility that the commercial banks would be compelled to divest themselves of Government securities even more rapidly, which would be to the detriment of the stability of the Government securities market. Therefore, as he had indicated, it was a matter of concern to him that reliance was being placed on the discount window as the source of such reserves as had been supplied up to this point.

Mr. Mills said that this raised one further theoretical question in his mind, which had to do with the discussion of administered prices in the industrial, commercial, and commodity fields. Where supply and demand were the two factors that in their interaction expressed the over-all level of interest rates, it must be borne in mind that in controlling the supply of credit, that is, the availability of credit, the System was in a sense administering a price for credit.

The System has the last voice, Mr. Mills pointed out, in influencing the rate of interest that conditions all credit operations throughout the entire economy. That was a factor the System must face up to at the present time. The pressure of System policy and a continuing divestment of Government securities out of commercial bank portfolios would tend toward further deterioration of the Government securities market and would deter investment on a larger scale on the part of investors who, he was convinced, would come into that market if there was a semblance of stability in the price of Government securities and in the trend of interest rates.

At this point Chairman Martin returned to the room.

In further comments, Mr. Mills said that the type of System policy pronounced through the Desk at the present time would, as he saw it, compel a further divestment of Government securities out of commercial bank portfolios in order to provide funds with which the banks might meet the loan demands they were now facing. As Mr. Hayes and others had pointed out, a period was now being entered when there would be a pronounced seasonal demand for credit, a legitimate demand that the System had historically satisfied through the provision of reserves. It was his firm belief that this seasonal demand for credit must and should be met through supplying reserves by way of open market operations, and that a fortunate opportunity had presented itself, because of the Treasury financing operations, to supply reserves without creating the impression that there had been any major change in the direction of System policy. This policy should continue to be one of restraint, but restraint expressed in a less pronounced degree than had been true in the past several weeks.

Mr. Shepardson said there was a basis, of course, for the point of view Mr. Mills had expressed. His own feeling, however, was to the contrary and was in line with the views expressed thus far by others who had spoken. The economic situation as presented this morning seemed quite clear, being one that reflected the continuing pressures of expansive growth. In view of those pressures and the problem of Treasury financing, it appeared that there was nothing to be done at the moment other than maintain the current degree of restraint. While he agreed with Mr. Hayes that there might be a changed situation within the next few months, at the moment he would suggest no change in the present degree of restraint.

Mr. King said it was his opinion that the moderation at the present time in certain of the forces of economic activity that had been increasing reflected the restrictiveness of monetary policy. In his opinion, the restrictiveness applied up to the present time had been desirable and in an appropriate amount. On the other hand, he did not believe that greater restraint would be appropriate at this time. An even keel policy, with net borrowed reserves at a level of about $500 million, seemed to him the best policy to follow for the immediate future. He had the feeling that too many changes in policy on the part of the Open Market Committee and the Board of Governors were generally undesirable from the standpoint of the public, which he felt tended to view frequent changes with some alarm. It was his view that to fix a policy and continue it as long as possible contributed to stability more than frequent changes, and with that in mind he would approach a change in policy with more concern than some others might approach it. From personal contacts and observation, it was his opinion that the economy was now under considerable, and he felt desirable, pressure. The fact that the increase in the money supply since last December had been limited to about 2 per cent offered an indication that System policy was having the desired effect. With the growth in the money supply having been limited to that extent, it appeared to him appropriate to continue the present policy.

Mr. Fulton reviewed developments in connection with the wage negotiations in the steel industry and referred to the principal issues at stake. He noted that, despite some wildcat strikes and work stoppages, operations currently were at about 83 per cent of capacity. In the rubber industry, notice had been given by the union that the current contract would be opened up for negotiation on the first of August, and negotiations in the aluminum industry also were scheduled for August. With regard to steel inventories, it had been said that the auto industry was carrying its inventory in the form of approximately 900,000 new cars. In the event of a strike in the steel industry, it appeared likely that the automobile manufacturers would close up rather quickly for the model change-over period. Construction in the district was at a rate about 8 per cent below year-ago levels, with the decrease accounted for largely in heavy engineering contracts. Also, a lot of things that were in progress last year and early this year, such as road construction, had now been completed. Residential construction had leveled off, although still at quite a high rate. Unemployment was gradually moving downward, although there were still a few areas, including the coal regions, with substantial unemployment. Retail trade was at a level about 8 per cent above last year and autos were selling quite well, about 30 to 35 per cent above last year. A tendency was noted toward lengthening of terms.

Mr. Fulton went on to say that total deposits at weekly reporting banks in the district were almost 5 per cent under last year. This, together with the intensive demand for loans, had placed considerable strain on the banks. The Reserve Bank had talked with member banks that were getting into a continuous borrowing position, and the rate of borrowing at the Reserve Bank had tapered off recently. Borrowings were presently only about 7 per cent of the System total, whereas earlier they had been running from 12 to 14 per cent of the total.

Mr. Fulton regarded the present degree of restraint as appropriate and felt that it should be continued. However, he thought a look should be taken to see where the Federal Reserve would want to be when fall came; that is, to see whether it might be appropriate to consider an increase in the discount rate, a move which he noted had sometimes been made in the months of August and

September in past years. For the present, he believed it would be appropriate to maintain the present degree of pressure and to leave leeway for interpretation with the Desk.

Mr. Bopp said that developments in the Third District were similar to those reported for the nation as a whole. Although unemployment continued at a somewhat higher level than nationally, recent developments as to employment and unemployment were favorable, reflecting widespread improvement among durable and nondurable goods industries and also from a geographical standpoint. Every area in the district had shown some improvement, although in some cases the improvement was from a position of considerable weakness. Total construction contracts were down a bit, the decline being almost exclusively in nonresidential construction and in utilities. The market for new homes continued to be good but appeared to be weakening somewhat. The typical rate on conventional mortgages had now advanced to 5-3/4 per cent and high grade VA-guaranteed mortgages written under the terms of the new legislation permitting higher rates were expected to sell at about a 3 point discount. While there was a strong demand for credit, reserve city banks were under less pressure than last week.

As to policy, Mr. Bopp said that he also would favor continuing the present degree of restraint. He would favor no change in the discount rate or in the policy directive.

Mr. Bryan said there appeared to be nothing in the Sixth District that needed to be commented upon at this time, for developments were similar to those reported from other parts of the country. The demand for credit at commercial banks and at the discount window was heavy.

Continuing, Mr. Bryan said he found himself convinced that System policy had been exerting a considerable effect. He gathered as much from comments of bankers and from some of those who had endeavored to borrow. In talking recently with a reserve city bank that had been a rather large and persistent borrower at the discount window, he was told that the bank's executive committee had met that morning and turned down all of the 14 loan applications presented to it. Upon inquiry, it was indicated to him that if the bank had been in better supply of funds, probably about half of the applications would have been approved. Accordingly, he shared with Mr. Mills the general feeling that perhaps some of the barely visible slowdown in the rate of economic growth had been the result of System policy, and it seemed to him that the System must be alert against overdoing restraint. While the evidences of slowdown at the moment did not seem to him to warrant any notable relaxation of restraint, he believed that the System could very well keep the money supply growing at some modest rate, perhaps around 2-1/2 per cent. He agreed with Mr. Thomas that under present circumstances any additional reserves would promptly be converted pari passu into an increase in the money supply, but he felt that the System must be careful not to contribute to a crisis in Government finance.

Mr. Johns commented that he had reviewed developments in the Eighth District rather infrequently at Committee meetings, not because the district was colorless but because it seemed to present almost a scale representation of the behavior of the national economy. With respect to policy, Mr. Johns said he found himself in agreement with the view that existing policy should be continued for the next three weeks. If he correctly understood Mr. Thomas, he would agree with him that maintenance of existing policy should not be taken to mean that the forces of demand now at work in the economy should be prevented from bringing about or resulting in some further rise in interest rates. If that situation occurred, he was inclined to think that the rise in rates should be permitted. He would agree with Mr. Hayes and others who, although recognizing that a discount rate change at this time would be premature, nevertheless felt that it would be prudent to be alert to the fact that the time might not be too distant when it would be necessary to take a look at the discount rate.

Mr. Latham stated that the general picture in the First District looked good. The pickup in business had canceled a good part of the recession losses and in some segments had now expanded beyond prerecession levels. Nonresidential building contracts were 24 per cent above a year ago and residential contracts up 46 per cent. Nonagricultural employment continued its recovery trend in

May, with manufacturing employment recording its best April-May gain since 1950. In all six Northeastern states, the average factory work-week in May exceeded 40 hours, with weekly earnings at record levels except in Maine, and electric output continued to expand. Department store sales in May registered a 5 per cent gain over a year ago but were still behind the 1956 and 1957 rate. Inventories at department stores reflected a modest rise, credit transactions had been on the increase, and collection ratios were off slightly. Consumer instalment credit was up, with 175 reporting lenders showing a 19 per cent increase in new credit in May over a year ago. Commercial and industrial loans outstanding on July 1 were 10 per cent above a year ago and slightly larger than in 1957. Nondurable goods manufacturers were making a good showing. Shoe manufacturers were having an excellent year, with retail inventories at low levels, and even the textile mills were surprised by an order volume which would limit to some extent the vacation shutdowns this year.

Mr. Latham reported that more and more bankers were expressing concern about their continued ability to meet increasing credit demands. In most cases, this concern was attributable to a reluctance to liquidate securities on which there was substantial depreciation. Another factor, particularly in the vacation areas, was the delay in deposit buildup as the result of an extremely wet spring. Although member bank borrowing was running approximately three to four times greater than a year ago, it was not as heavy as in 1957.

Mr. Szymczak commented that he had little to add to what had already been said at this meeting. A slowup in certain sectors might tend to stabilize the economy and prevent an inflationary trend. However, two things were particularly important, as mentioned by Mr. Mills. First, the Government securities market apparently would go through a most difficult period in July and August. Second, there was the matter of borrowing by member banks. As he saw the picture, the System would have to provide some reserves in the period ahead in order to continue its present policy. He would favor maintaining policy about as at present, but he would keep looking at the over-all picture, including the Government securities market and discounting at the Federal Reserve Banks.

Mr. Balderston said that to the extent System measures of the money supply were accurate, some comfort might be derived from the fact that since last December the increase in the money supply apparently had been at the annual rate of about 2 per cent and not as large as estimated earlier by certain financial writers.

The most worrisome of our problems relate to Treasury financing and the state of the bond market, Mr. Balderston said. Between now and next January there seemed to be no period when monetary policy would not affect Treasury financing operations directly. In that period it appeared that the Treasury would have to borrow at least $7 billion net, and that it would have to borrow chiefly in the short end of the market. This would cause short-term interest rates to continue to rise, which in turn would create an inducement for corporation treasurers and others to pull down demand deposits because the opportunities for short-term investment would be so attractive. Thus, the System was likely to be under severe pressure during the next six months due to a combination of seasonal demand for credit from private industry and the need for funds on the part of the Federal Government. As to the next three weeks, Mr. Balderston said that he would favor continuing the present degree of restraint.

Chairman Martin said that this would appear to be an easy meeting from the standpoint of the Chair because obviously there was no desire to change the directive or System policy. While he could just let it go at that, he desired to express himself in terms of the broader problem.

From the minutes of the preceding Committee meeting, which he had been unable to attend, he noted that comments had been made by several persons to the effect that any errors should be on the side of restraint rather than ease. Errors this time, he suggested, ought to be on the side of ease rather than restraint, although he would not want to see policy changed at all. He felt that he would not be discharging his responsibility unless he indicated to the Committee that he felt the Government securities market was in a critical state. Here he was not talking about ghosts but about the actual situation, a situation complicated by the fact that every move on the part of the System was being watched closely at the present time.

The last thing he would want to suggest, the Chairman said, would be to ease System policy simply to obtain legislation to eliminate the interest rate ceiling on Treasury bonds and to increase the rates on savings bonds. He had been under personal pressure recently to indicate that the Federal Reserve might ease its policy but he had not given an inch. However, looking at the pressures over which no one has control, he felt it necessary to be careful that the System did not conduct itself in a way that might look like a deliberate action to nettle people. Interest rates were now a major issue politically. They might be made a national issue in 1960 or during the next few months, and at the moment he was not sure whether it would be possible to get a bill on the interest rate ceiling through Congress. Again he emphasized that he was not suggesting an easing of policy, but he thought the System must be careful not to overdo the matter of restraint at a time when the money market had a real bite in it. The dealers, he noted, obtained around $580 million of Treasury bills in the auction yesterday, so they would be almost out of commission as far as the next bill was concerned. Some people in the market were now talking in terms of a rate of 5 per cent and the Treasury, which had been hoping for a rate of 4-5/8, now knew the rate would be 4-3/4 or perhaps even

4-7/8. This situation was something to give one pause, and developments were taking place in an explosive way. That was the way that these movements always seemed to come. In view of current short-term market rates, the discount rate was way out of line and the System was not in a position to change it at this time. Thus, it seemed the better part of prudence and wisdom for the System not to overplay its hand on the side of tightness and for the Desk to be careful, in maintaining an even keel, to supply reserves in such a way that the System could not be accused of being niggardly. In substance, he felt that the current period was more critical than many people realized.

Referring again to the matter of interest rates, Chairman Martin repeated that this was a big issue, as was the manner in which the Federal Reserve conducted itself. Personally, he was proud of the way the System had been conducting itself, and he did not intend to give an inch in the way of making commitments regarding an easing of policy. However, he did not want the System to be in a position where people might say that if you gave it an inch it would take an ell. At the moment the System was in the midst of a struggle to prevent a writing of policy into the law, and if there was some big bulge in rates the System would be in danger of being accused, although perhaps falsely, of having influenced the market.

Chairman Martin then referred to the saying he had used on other occasions that the iron which breaks is not as strong as the steel which bends. In the present situation, neither the Desk nor any other party could appraise precisely the pressures in the market; therefore, the Desk should be careful not to get in the position of forcing the market unduly in order to maintain a given position during a period that was acute and serious.

The consensus of the meeting, the Chairman noted, was clearly for no change in policy and for no change in the directive. With that consensus he concurred. As to the technical operations of the Account, however, he felt that extreme care should be exercised to see that the System was supplying reserves during this period in a way that would not subject the System to the criticism that it was trying to make things more difficult than necessary for the Treasury. In a manner of speaking, it was a case of wanting to win the war, and the System would not wish to put itself in the position of gaining one small point at the risk of losing the war. If one could clearly determine what the precise degree of tightness or ease might be, that was one thing, but certainly no one around this table could gauge the situation quite that accurately.

Summarizing, the Chairman said he merely wished to present the matter to the meeting on the basis that he would not like to see any change in the directive or in System policy, but that he would like, for want of a better phrase, to have any errors made on the side of ease during the period of Treasury financing.

Mr. Hayes said that he was able to agree very easily with the Chairman's point of view. The Treasury had a most perplexing problem and must have the System's sympathetic attitude. The Chairman's suggestion, he said, was helpful in that connection.

Mr. Hayes then called upon Mr. Marsh for a statement with regard to latest market developments, and the latter reported having been advised that the market had reacted sharply to yesterday's bill auction. For the auction tomorrow, the market was now talking of an average issuing rate between 4.50 and 4.75 per cent. This could put the rate for a one year certificate as high as 5 per cent, allowing for the difference between the discount rate on bills and true yield. Mr. Marsh said this was something of a shock to him for he had not thought that the market would take it quite that hard. Possibly the reaction represented somewhat of a swing in the direction of over-compensating, and the views expressed might be somewhat extreme. However, they were such as to warrant definitely making any errors of judgment on the side of ease.

Chairman Martin again injected a plea for that type of operation, adding that he had talked last night with several people who were well acquainted with the market and that there had been a real shock in yesterday's Treasury auction. In short, it appeared that the System was in another critical period, one where it was not possible to say that the situation would simply go away. While he was certainly not in favor of easy money, he was in favor of a reasonable latitude in open market operations during the period of Treasury financing.

Mr. Szymczak said that he agreed wholeheartedly. As he understood it, Mr. Mills had stated the case just about the same way, although Mr. Mills had added also the factor of seasonal demands for credit.

Mr. Shepardson commented that he was one who at recent Committee meetings had suggested that doubts be resolved on the side of tightness. However, in view of the situation that existed today, he felt that a degree of caution on the other side was justified and he would take no exception to the type of operation suggested by the Chairman.

Chairman Martin then stated that, unless there was objection, the policy directive would be issued to the New York Bank in its present form. With no change in policy, he proposed that the Committee agree that errors would be resolved on the side of ease during the period of Treasury financing.

No objections were heard in response to this statement by the Chairman.

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

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System Open Market Account in the open market or, in the

case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to restraining inflationary 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 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.

At the request of the Chairman, Mr. Young commented on the status of the Treasury-Federal Reserve study of the Government securities market. He noted that the material that had been distributed to the members of the Committee and the Presidents not currently serving on the Committee would constitute the first segment of the study; that is, the results of the consultations that had been held and a technical study of the advantages of a dealer market versus an auction market in Government securities. This latter study was directly in response to questions raised by Senator Douglas at hearings of the Joint Economic Committee earlier this year. The Treasury, he noted, was interested in having this pair of papers published in advance of the hearings by the Joint Economic Committee dealing with the subject of the Government securities market which were to be held later this month. To carry out such a schedule, it would be necessary to send the documents to the printer Friday evening of this week, which meant that any suggestions would have to be received not later than Thursday afternoon or Friday morning.

Chairman Martin then stated that any comments should be sent direct to Mr. Young.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, July 28, 1959, at 10:00 a.m.

At this point (12:00 noon) the Chairman called for a session of the Committee at which attendance would be limited to the following:

Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Allen
Mr. Balderston
Mr. Deming
Mr. Johns
Mr. King
Mr. Mills
Mr. Shepardson
Mr. Szymczak
Mr. Bopp, Alternate for Mr. Erickson

Messrs. 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. Riefler, Secretary
Mr. Sherman, Assistant Secretary

Mr. Latham, First Vice President, Federal Reserve Bank of Boston

Mr. Marsh, Assistant Vice President, Federal Reserve Bank of New York

Chairman Martin referred to the discussion at the afternoon session of the meeting of the Federal Open Market Committee on March 3, 1959 concerning possible changes in procedures with respect to attendance at meetings of the Committee and distribution of minutes and other Open Market materials. Under date of July 2, 1959, the Secretary had distributed (a) a memorandum from Mr. Hayes dated June 11, 1959 regarding proposed changes in internal "security" arrangements, (b) a memorandum from Mr. Deming regarding access to information and procedures in handling Open Market and other information relating to Federal Reserve policy, and (c) a memorandum from the Secretary reviewing the procedures regarding attendance at Open Market meetings and distribution of materials during the period 1936 to 1959. Chairman Martin also noted that the Secretary had distributed under date of July 6, 1959 a memorandum summarizing in tabular form positions indicated at the afternoon session on March 3, 1959 with respect to attendance at Open Market meetings and access to Open Market minutes and other materials. He stated that it appeared that the largest group had appeared to favor a position that would continue substantially the present procedure with respect to attendance at meetings and access to materials. He added the comment that this did not resolve the question, and he felt it would be desirable to attempt to arrive at an understanding at this meeting as to the procedure to be followed in the future.

The Chairman then commented that his own views as to attendance at meetings and access to materials had not changed from those expressed at the meeting on March 3, 1959, although he had tried to keep an open mind in considering other suggestions that had been made at that meeting. By and large it still seemed to him that the advantages of substantially the present procedure outweighed the disadvantages both from the standpoint of operations of the Committee and from the standpoint of developing management personnel within the System. His view in this respect was not unalterable and he would be glad to have a discussion of the several alternatives that were mentioned in Mr. Riefler's memorandum of July 6. He then called upon Mr. Johns for his comments.

Mr. Johns noted that he was not present at the March 3 meeting, at which the principal discussion of this subject had taken place. He had not availed himself of the privilege of submitting a memorandum on the basis of what he had read in the minutes of that meeting, but had he been present, he would have taken a position at that time, and he now took such a position, favoring Alternative D of Mr. Riefler's July 6 memorandum regarding attendance at Open Market Committee meetings; that is, he would continue substantially the present procedure, recognizing that some minor changes might be introduced. Mr. Johns said that he shared Chairman Martin's view completely that the advantages of the present procedure outweighed any possible disadvantages that might be thought to exist.

Mr. Hayes stated that, having expressed his views in his memorandum of June 11, 1959, he would not go into the details of his reasoning, but that in his memorandum he had taken a position which he believed to be identical with the position indicated by Chairman Martin as well as that of Mr. Johns. Personally, he believed the advantages of the present procedure greatly outweighed any risks, and he would dislike to see any substantial change in this procedure.

Messrs. Irons, Leach, and Szymczak indicated that they took the same position as that already indicated.

In response to a question by Mr. Szymczak as to whether he wished to have a formal vote on the matter, Chairman Martin stated that he did not want to limit discussion of the subject and that he would be glad to hear any other comments regarding the procedure under discussion.

Mr. Balderston stated that this was not a question of choosing between black and white, but he responded favorably to Mr. Hayes' suggestion that the persons attending these meetings constantly give attention to the care with which Open Market records, including minutes, memoranda, and telegrams of daily telephone conversations were handled both in the Board's offices and at the Reserve Banks. In his view the memorandum regarding the 11:00 a.m. telephone call could, if placed in the hands of an agent of one of the financial organizations, prove seriously embarrassing to the Committee. The minutes of the meetings become less dangerous with the passage of time but in the initial stages should be closely guarded. While he agreed that the present procedure was one that unified the System's thinking and helped to develop staff personnel, cautions of the type Mr. Hayes had mentioned in his memorandum should continuously be kept in mind. Consideration might be given to abolishing the list of personnel authorized to have access to minutes and other Open Market records, since a list containing 70 names might be difficult to explain if it had to be submitted to a critical group. Mr. Balderston said he was not suggesting that the individuals who had been given access to minutes at the proper time no longer have this privilege, but he was suggesting that such a large distribution list for the minutes was unnecessary.

Chairman Martin stated that he felt the discussion of this subject had been most useful and that review of the procedure along the lines suggested by Messrs. Hayes and Balderston was desirable. It was incumbent on everyone participating in these meetings to realize that he had a very real responsibility to see that none of the information was improperly used.

Mr. Leach said that, while he agreed with the continuation of the present procedures, he would like to express a different view as to the relative importance of the minutes of the Committee meetings. The minutes represented the official record of the Committee's discussions and current policy decisions, he said, and in his view they should be considered as strictly confidential. They might well be restricted substantially to those attending a meeting during the period between that meeting and the following meeting of the Committee when a new policy--perhaps renewal of the existing one--was authorized. It might be acceptable after the meeting at which the Committee again acted on a policy decision to leave to the President of the Reserve Bank concerned judgment as to what access should be given to the minutes at his Bank. In that case, it would not be necessary for the Secretary of the Committee to continue the present record of those having access.

At Chairman Martin's request, Mr. Sherman described the procedure followed at the present time in preparing and distributing minutes and other materials, noting that one copy of the preliminary draft of the minutes of each meeting was mailed under double cover as soon as completed to the President of each Federal Reserve Bank, except that in the case of New York an additional copy was included for the alternate member of the Committee at that Bank and another for the Manager of the Open Market Account. Similar distribution was made of the revised draft, and all materials relating to the minutes and other Open Market matters were handled on a strictly confidential basis. In the Board's offices, the minutes and other Open Market materials were distributed to the members of the Board, the official staff members of the Committee, and to other members of the Board's staff who attended Open Market meetings.

Mr. Hayes said that he was sympathetic with the suggestion of Mr. Leach, but he believed the purpose could be accomplished if each President would stress that Open Market materials represented confidential documents. His feeling was that the matter of handling the minutes of a current meeting could be left to the discretion of the President at each Reserve Bank without trying to put down in exact terms the procedure that the President should follow even with regard to the minutes of the latest meeting.

Mr. Leach commented that his suggestion was intended to make a better record and to make it unnecessary for the Secretary of the Committee to have a list of persons having access to minutes containing as many names as at present.

Mr. Bryan said that he could not agree with the suggestion that the handling of current Open Market materials should be left to the discretion of the President of each Federal Reserve Bank. His view was that the Open Market Committee was a statutory body and that it must exercise its responsibility for control of these materials.

Mr. Hayes explained that his suggestion was based on the fact that some of the Presidents were members, that others were alternate members, and that each President had a responsibility equivalent to that of a Committee member by reason of his attendance at meetings of the Committee.

Mr. Deming stated that he did not differ with the view that attendance at meetings should follow the lines indicated, that is, continue substantially the present procedure. He believed, however, that it might be worth considering having every person who participated in these meetings or who handled Open Market materials given a full field security investigation. This would provide at least one answer to any criticism that might be made of the Committee's procedure.

Chairman Martin responded that this was a good suggestion and that he would ask the Secretary to look further into it.

Mr. Mills said he had a strong belief that Federal Reserve policy at the right time should be fully open to research analysis and study and to constructive criticism. What he had in mind was that, if there were no objection, he would like to give his records of Open Market materials through calendar year 1957 to the Harvard Graduate School of Business Administration to serve as source material on which to develop a better insight into Federal Reserve policy actions.

Chairman Martin responded that he believed this would be far too recent a period for which to make such materials available. There were too many people who were still living and who would have an emotional bias who would be involved in such matters to consider such a short term.

Mr. Hayes stated that, while he felt there should be strict handling of current Open Market materials, he felt differently about historical records. At some time, in his view, it became suitable for material to be made available to others for study. A very strict control should be invoked over any current policy matter, but at some time the basis for current policy should be made available for historical analysis and study.

Chairman Martin stated that he would go along with the suggestion made by Mr. Mills if he put the date after which materials would not be made available at, say, 1932. He was serious in suggesting this date, he said, adding that he had been asked on numerous occasions about discussions in 1951 and 1952 regarding the Treasury-Federal Reserve accord and that anything like this represented a too-recent period for making available these records. To make available records of the recent past would inject into policy considerations an influence that would be undesirable. However, he would repeat that records might now properly be made available for the period up to the year 1932.

Mr. Hayes suggested that the question Mr. Mills was raising was a different one from that under consideration. It was a matter that should be dealt with perhaps at another meeting and on the basis of separate and special considerations.

Mr. Shepardson stated that as far as the current question was concerned, he was in thorough accord with continuing a program along the lines of Alternative D in the July 6 memorandum, that is, continuing substantially the present procedure as far as records and Open Market Committee minutes were concerned. He did not think the present procedure needed to be changed as to either the persons attending the meetings or accessibility to records. He also felt that a valuable suggestion had been made in trying to distinguish between what were current records, perhaps from one meeting to another as Mr. Leach had suggested, and those that were available for more widespread use. He could not see that anything would be lost by restricting the minutes of the most recent meetings as strictly confidential to the President and his one adviser who accompanies him to the Open Market meetings until after the next succeeding meeting. As far as general knowledge and training problems were concerned, it seemed to him that access to Open Market records after the next meeting of the Committee was quite sufficient. As to the total number of persons having access to records, he doubted that the Committee should be straining at a gnat on its top level staff who attended the meetings in view of the large technical and clerical staff necessarily engaged in processing Open Market materials. He thought the Committee might exercise care in distributing its current records and would favor a procedure such as that indicated whereby the current records would be kept strictly confidential until after the succeeding meetings.

Chairman Martin stated that he gathered that the majority of those present favored continuation of substantially the procedure presently being followed with respect both to attendance at meetings and to access to Committee records, with appropriate minor adjustments such as the one Mr. Shepardson had just referred to. None of those present indicated a different view.

Mr. Bopp stated that as a matter of detail if the telegrams commenting on the 11:00 a.m. telephone conferences each morning were to be handled only by persons who had had a full security clearance, it would involve full field investigations for a large number of telegraph operators throughout the System who were not presently cleared. These operators were carefully selected and instructed to treat telegraphic communications in a confidential manner, and in Mr. Bopp's view this was sufficient for their handling the 11:00 a.m. wire.

Mr. Johns concurred in this view, adding that if exception were to be taken to the handling of the 11:00 a.m. wire by the operators there were many other matters that would have to be investigated on the assumption that the telegraph operators of the Federal Reserve Banks would not respect confidential data.

Chairman Martin commented that it was extremely difficult to write a regulation of the type that Mr. Leach had suggested. In his view, this matter had to be in large measure one for administrative handling by the members of the Committee and other Reserve Bank Presidents. He proposed that the Committee dispose of the question by accepting the alternative that would continue substantially the present procedure as to attendance at meetings and access to minutes and other Open Market Committee data, with any minor adjustments that might be desirable for minimizing legitimate criticism that could come from the handling of Open Market information within the System. In response to a question from Mr. King, he said that this would include a check of the suggestion for having proper security clearance for those handling Open Market materials.

There was general concurrence with the Chairman's suggestion, and it was understood that the Secretary would proceed to review the existing procedures in the light of the discussion at this meeting but that no change in the general procedures now followed was contemplated at this time.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary