

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 Wednesday, November 4, 1959, at 10:00 a.m.

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

Messrs. Bopp, 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. Kenyon, Assistant Secretary  
Mr. Hackley, General Counsel  
Mr. Thomas, Economist

Messrs. Jones, Marget, Mitchell, Parsons, Roosa,  
and Young, Associate Economists  
Mr. Rouse, Manager, System Open Market Account

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. Knipe, Consultant to the Chairman, Board of  
Governors

Messrs. Ellis, Hostetler, and Daane, Vice Presi-  
dents of the Federal Reserve Banks of Boston,  
Cleveland, and Richmond, respectively

Mr. Einzig, Assistant Vice President, Federal  
Reserve Bank of San Francisco

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Mr. Coldwell, Director of Research, Federal Reserve Bank of Dallas  
Mr. Anderson, Economic Adviser, Federal Reserve Bank of Philadelphia  
Mr. Stone, Manager, Securities Department, Federal Reserve Bank of New York

There had been distributed to the members of the Committee a preliminary draft and a revised draft of minutes of the meeting of the Committee held on October 13, 1959.

Mr. Hayes referred to that portion of the minutes covering discussion of a memorandum prepared by a staff study group under date of September 28, 1959, setting forth an inventory of areas for possible administrative action growing out of the recent Treasury-Federal Reserve study of the Government securities market. After noting that he was not present at the October 13 meeting, Mr. Hayes said that upon reading the minutes he felt there was some ambiguity as to what action was intended by the Open Market Committee regarding the suggestion relating to the formulation and initiation of a new program of statistics collection from all Government securities dealers. From the minutes, he said, he was not clear as to whether the Committee really reached a decision to go ahead on an experimental basis with the proposed collection of Government securities market statistics, including data on the trading volume and position of dealers.

Mr. Hayes went on to say that when he discussed this matter before the October 13 meeting with Chairman Martin and Under Secretary of the Treasury Baird, he (Mr. Hayes) had the feeling that the desire

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was to map out the program before jumping to a decision as to who was to collect these statistics. Personally, Mr. Hayes said, he had some fairly strong views--and perhaps others did also--as to what was needed by the Desk and as to whether the Desk should have access to the figures collected from the dealers. Therefore, before changing a procedure that had now been in effect for many years, he felt that the Committee ought to be clear as to what it was doing. His suggestion would be that the matter be discussed further at another meeting of the Committee when the Chairman was present. Also, before such a further discussion he would like to submit to the Committee members the reasoning of the New York Reserve Bank as to the merits of the proposal.

Mr. Hayes said that he would not suggest disapproval of the October 13 minutes. In his judgment, however, the question to which he referred had not been fully clarified and deserved additional time and discussion.

Mr. Balderston said he had the feeling that it was important not to delay this matter unduly because of the interest of the Congress in the joint study of the Government securities market. However, in view of the fact that Mr. Hayes was not present at the October 13 meeting, it seemed appropriate to Mr. Balderston that Mr. Hayes' views on the matter be laid before the members of the Committee between now and, say, the next Committee meeting, so that the matter might be put on the agenda for further discussion at that time.

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Mr. Shepardson said that he thought the matter was presented quite fully by Mr. Young at the October 13 meeting. He also noted that discussion of the suggestions presented in the staff memorandum was reflected in several pages of minutes. The general tenor of the discussion at that meeting seemed to him clearly to indicate a desire on the part of the Committee that Mr. Young go ahead with an experimental approach. In order that the matter might not be left in an uncertain status, he (Governor Shepardson) had made the comment reflected on page 55 of the minutes, in which he stated his understanding that the term "on an experimental basis" meant that Mr. Young and his associates would go forward on an experimental basis and that an indication of Committee assent to the program for collection of statistics would constitute authorization for Mr. Young to proceed on such basis. As recorded in the minutes, there was no indication of disagreement with this understanding, and Mr. Young had added that the experimental steps would be taken in cooperation with the Desk. Mr. Shepardson said he had assumed, therefore, that the matter was clear and that Mr. Young would begin taking experimental steps.

Mr. Hayes then commented that the New York Bank was proceeding, in cooperation with Mr. Young, to produce a memorandum on what the Desk wanted from the dealers and why the information was needed. It did not seem feasible, Mr. Hayes said, to go ahead with the actual collection of statistics until there was a decision as to what should be collected.

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Mr. Shepardson agreed, but he added that the question related to where the initiative and responsibility should lie. As he had understood it, the action of the Committee at the October 13 meeting was to authorize Mr. Young to take the initiative in proceeding with an experimental approach.

Mr. Hayes responded that to him the ambiguity arose out of the fact that the New York Bank was now proceeding, in cooperation with Mr. Young, on a study of what statistics were to be collected. He did not see how it would be possible to proceed with the actual collection until the aforementioned information had been entirely analyzed.

Mr. Shepardson then suggested asking Mr. Young for his understanding, and Mr. Young commented that there appeared to have been some misunderstanding as to what came out of the discussion at the October 13 meeting. The way the matter stood at present was that the Desk was proceeding with the preparation of two memoranda. One of these would deal with the general question of what statistics would be desirable from the standpoint of the System and the Treasury, and also the public. The other memorandum was to contain a detailed schedule for the collection of statistics.

Mr. Young said he thought that the question of how to proceed needed some clarification; that is, whether it should be left that the New York Bank would proceed with its studies and then see what the two memoranda would show, or whether the planning program should

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be placed in the hands of a committee of Reserve Bank, Board, and perhaps Treasury representatives. The program would be a complicated one in various respects, including the problem of relationships with the dealers and the problem of launching the program of statistics in an appropriate public relations setting. There would also be the problem of obtaining the sanction of the Budget Bureau because the proposed statistics would take on a different aura from the standpoint of the Federal statistics program and would have to be collected under the provisions of the Federal Reports Act. Mr. Young concluded by saying that the staff would do its best to implement whatever procedure the Committee might decide upon.

Mr. Hayes inquired of the Committee members as to their feeling regarding his suggestion for a full review of the matter at the next meeting. Such a procedure, he noted, would give the Committee members an opportunity to see the memoranda being prepared at the New York Reserve Bank.

In this connection, Mr. Rouse stated that the first memorandum was the more important of the two and that it was almost ready. The second memorandum also was in course of preparation and might be ready within about a week.

Mr. Balderston asked Mr. Young for his opinion as to whether further consideration of the matter in the manner proposed by Mr. Hayes would interfere unduly with the progress of the study and with relationships between the System and the Congress.

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Mr. Young responded that the System was under some pressure from the Congress to proceed as expeditiously as possible. At least that was the commitment made to the Joint Economic Committee for resolution of the whole problem. However, considering the work that was now in process, to carry the matter over until the next Committee meeting probably would not be a handicap to the general program, and in any event it was necessary to know how the matter stood before going ahead. He was not sure, however, whether the suggested procedure would permit an adequate technical review of the New York Bank's proposals before the matter was submitted to the Open Market Committee. This was a highly technical subject and some confusion might develop if the matter was submitted to the Committee prematurely. The technical staff should first give the matter some thought in collaboration with the technical staff of the Treasury. Therefore, if the memoranda were submitted directly to the Committee, it would seem desirable that discussion of them at the next meeting be of a preliminary character and subject to review.

Mr. Hayes commented that it was the intent of the New York Bank to discuss the memoranda in detail with Mr. Young and his staff and also with the Treasury.

Mr. Rouse said he had had in mind that the first memorandum would be worked over with Mr. Young and with Mr. Mayo of the Treasury. This was in accordance with his understanding that there would be a working over at the technical level of the general ideas submitted to the Committee.

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Mr. Young commented concerning the necessity of "feeling our way along." Review at the technical level should make it possible by the next Committee meeting to be a little clearer on the issues; that is, to know what disturbed people, how such questions could be resolved, and how to devise a mechanism that would make sense. The program could then go forward in a cooperative way.

Mr. Rouse commented that the proposed procedure seemed clear and satisfactory to him.

Mr. Robertson said he had thought that the whole matter was settled at the last Committee meeting by authorizing Mr. Young to go forward, which meant merely that Mr. Young was to get started. However, any time that a Committee member wished to come forward with suggestions he should feel free to do so, and the program no doubt would have to be varied from time to time. It would not be desirable to hold up the staff group but any Committee member should be free to make comments from time to time. He would have no objection to the proposed procedure.

Mr. Shepardson said that his remarks had been directed particularly to the question referred to on page 51 of the minutes of the October 13 meeting; namely, the question of an appropriate assignment of responsibility for the collection and analysis of the statistics proposed to be collected. Considerable discussion followed the presentation of that question at the October 13 meeting, and he had thought he sensed from the trend of the discussion that

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there was sentiment for assigning this responsibility to the Research Division of the Board. Therefore, he had stated this as his understanding, and as reflected in the minutes there was no disagreement with that understanding or with Mr. Young's added observation about proceeding in cooperation with the Desk. In other words, he (Mr. Shepardson) had thought that there was a clear-cut assignment of responsibility.

Mr. Hayes replied that he thought the reference to proceeding in cooperation with the Desk was not entirely clear; the addition of those words left some ambiguity as to the assignment, at least in his mind. Some of his associates who were present at the October 13 meeting felt there was some question whether the minutes reflected the full discussion, and they suggested that the nature of the discussion may have made it difficult for all of the comments to be recorded. If the Committee felt definitely that the action suggested by Mr. Shepardson was the action taken, it would be easy to confirm that action at the next Committee meeting. It was desirable, Mr. Hayes suggested, for the Committee to be sure it had all the background and facts and that it did not reach a conclusion prematurely.

Mr. Shepardson inquired whether Mr. Hayes referred to the background and facts for determining what might be done or for determining the assignment of responsibility for moving ahead, to which Mr. Hayes replied that it seemed agreed that the study of what statistics the Committee might want was moving ahead, in

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cooperation between the Board and the New York Bank and with the thought of bringing in the Treasury as fast as possible. Mr. Hayes felt that Mr. Young's comments supported his own view that it was not possible to go out and collect statistics until it was clear what statistics the Committee actually wanted to collect.

Mr. Shepardson then stated that, as he understood it, the immediate question was whether the Committee intended to assign a primary responsibility for moving ahead with this program. This did not represent delineating what statistical program ought to be developed, for that would come forward later. However, in a program of this kind, it seemed to him--and he thought it was the intention of the Committee--that primary responsibility for leadership in initiating and pushing the matter along in a coordinated way was desirable. While Mr. Young made no recommendation at the October 13 meeting other than to present the various alternatives as to where the initiative and responsibility for leadership might lie, he (Mr. Shepardson) understood, and had so stated, that it seemed to him to be the opinion of the Committee that it wanted the Research Division of the Board to assume the leadership of the program.

Mr. Hayes responded that this was where he found some ambiguity; that is, between the question of leadership of the program and the question of what was to be collected and who was going to be collecting agent from the dealers. There was a distinction in this respect that he thought worthy of consideration. As Mr. Young

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had pointed out, it was understood that the initial memorandum on what statistics were needed was being done at the New York Bank. That, Mr. Hayes said, was his understanding with Chairman Martin, and the Chairman so indicated at the meeting with the Treasury. It was also understood that there would be constant consultation with the Board and the Treasury.

Mr. Hayes then said that the matter could be taken up again at the next Committee meeting without prejudicing anyone's position. He felt that the question should be clarified in order to go ahead constructively.

Mr. Allen said that his understanding of the action taken at the October 13 meeting was the same as Mr. Shepardson had stated. He also agreed with Mr. Robertson that there was no reason why any Committee member could not submit his thinking at any time and that such views should be taken into consideration by the Committee. However, it was quite clear to him that the situation at the October 13 meeting was as Mr. Shepardson had stated.

Mr. Hayes then suggested approval of the minutes of the October 13 meeting, with the understanding that the discussion today would be incorporated in the minutes of today's meeting. He asked whether any member of the Committee would object, and Mr. Shepardson said he would have no objection if the procedure would not involve undue delay. Mr. Shepardson then turned to Mr. Young, who commented that the New York Bank was proceeding with the two aforementioned

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memoranda and that until these memoranda were available as a basis for exchange of ideas, it did not seem feasible to move ahead further.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on October 13, 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 October 13 through October 28, 1959, and a supplementary report covering the period October 29 through November 2, 1959. Copies of both reports have been placed in the files of the Committee.

Mr. Rouse commented that open market operations had supplied \$82 million of reserves net to the market on a delivery basis during the period since the last meeting of the Committee. However, this relatively small figure obscured the fact that the volume of open market operations was quite large and represented a substantial expansion of activity over the preceding period. During the past three weeks, for example, the Account sold or redeemed \$205 million Treasury bills and purchased \$195 million. In addition, \$270 million new repurchase agreements were made, while agreements totaling \$175 million matured or were withdrawn. Of the \$400 million gross purchases and sales of Treasury bills outright over the past three weeks, \$250 million, or over 60 per cent, represented transactions with foreign accounts.

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The outcome of the heavy volume of open market operations during the past three weeks was a generally steady degree of pressure on bank reserve positions. As noted in the written reports to the Committee, Federal funds were at 4 per cent on nearly every day of the period, and dealer lending rates generally moved in a narrow range of  $4-1/3$ - $4-3/4$  per cent, although in the past few days most New York banks had been quoting a rate of 5 per cent on new loans. The latter was a surprising development at the onset of Treasury financing and at a time when the basic reserve position was lighter than it had been for some weeks. The explanation might be that the liquidity positions of the New York banks were under particular pressure.

The rising trend of prices for Treasury notes and bonds which was evident at the time of the last meeting was reversed toward the end of October. Through October 23, prices had risen by as much as  $1-3/4$  points, but losses ranging to  $1-6/32$  were subsequently sustained.

The reversal of the rising trend of prices apparently reflected two major factors. The first, and perhaps most important, was the steel situation. The settlement of the strike with Kaiser and other small producers generated optimism concerning the possibility of an early general settlement; on the other hand, the statements by the major steel companies of their determination not to settle on the formula used in the Kaiser agreement, and also the questions raised by the union's challenge of the constitutionality of the Taft-Hartley

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Act, gave rise to pessimism concerning an early settlement. Furthermore, the approach of the Treasury's refunding operation--the second of the major factors noted above--created the usual uncertainties as to what would be offered and how the market would react to the new issues. In this atmosphere, trading activity was noticeably reduced as both buyers and sellers tended to move to the sidelines and await developments.

The Treasury's announcement of the terms of the refunding was well received, and the market regarded the  $4\text{-}3/4$  per cent rate for one year and  $4\text{-}7/8$  per cent for four years as adequate. Both the rights and the when-issued securities traded at a premium on Friday and Monday, and a successful outcome of the refunding was anticipated.

Mr. Rouse then stated that he would like to mention to the Committee a technical problem that arose in connection with the repurchase agreements made last Monday and how the Desk had handled it. This technical problem involved rights that came into the market, which dealers had positioned, and which they placed in repurchase agreements with the New York Bank. Since today was the final day for the exchange, the dealers must make up their minds by tonight as to how they would split their holdings of rights between the new one-year issue and the new four-year issue. To the extent that the rights were exchanged for the longer security, the New York Bank would be holding a four-year issue under repurchase agreement tomorrow. Accordingly,

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the Bank informed the dealers when the repurchase agreements were made that on Thursday they would in effect have to substitute new collateral for the rights which they had exchanged into the four-year note. Mr. Rouse inquired whether anyone wished to comment on this technical problem.

Mr. Allen inquired as to the total amount in which rights were held under repurchase agreements, and Mr. Rouse replied that he did not have the exact amount; however, the New York Bank made \$94 million of repurchase agreements on Monday, mostly against rights.

Mr. Mills commented that this was a problem with which the dealers were thoroughly familiar by virtue of earlier experience. On this particular occasion, he believed it would be a mistake to change the precedent already established and to afford a temporary relief against rights to the four-year notes in the form of repurchase accounts. If that were done, the dealers would unquestionably, in his opinion, expect the same sort of treatment on future occasions and the Open Market Committee would have destroyed the precedent that was now well established.

Mr. Thomas remarked that if the Open Market Account made a reasonable amount of funds available in the market the dealers should be able to obtain financing outside the Federal Reserve. Mr. Rouse indicated that this was correct.

Mr. Rouse then turned to another problem. He said that he was at the Treasury last week for meetings in connection with arriving at a decision as to the terms of the refunding. At a time

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when he and Mr. Balderston were in Under Secretary Baird's office a phone call was received from the Secretary of the Treasury, who raised a question with respect to how the System would exchange the \$5 billion of securities maturing November 15 that were held in the Open Market Account portfolio.

Mr. Balderston commented that the Secretary, who was calling from Texas, said it was immaterial to him, as Secretary of the Treasury, what the decision might be. Mr. Balderston felt that the Secretary was completely sincere in that statement, although he (Mr. Balderston) could see some impact upon future Treasury financings. The Secretary went on to say, however, that in discussions on the Hill last summer and in the early fall it was pressed home to him by many Congressmen of the so-called "liberal" school that the Federal Reserve was doctrinaire and inflexible. The Secretary said it had occurred to him that the System might wish to use such occasions as were presented to make the record clear that it was not doctrinaire, provided those decisions did not involve any sacrifice of principle. Mr. Balderston said his reply to the Secretary was to the effect that this was a matter that should come before the Open Market Committee as a whole. The Committee, he had added, was meeting this morning in time to make a decision on the exchange.

Mr. Balderston went on to say that his own feelings were somewhat mixed. On the one hand, he appreciated the thought that the Secretary had expressed. The Secretary, he felt, was deeply concerned

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about the attacks on the System that might come when Congress reconvened and seemed anxious that the System not overlook opportunities to demonstrate that it was not dogmatic in the positions it held. On the other hand, the last time such action (to split an exchange between two issues) was taken the Committee had a more valid reason than now seemed to be the case. At that time the Committee acted in order to assist the Treasury's layout of its program, and that would seem to be a complete enough explanation for anybody. If the Committee should instruct the Desk to exchange the \$5 billion of securities held in the Open Market Account portfolio for \$4 billion of one-year certificates and \$1 billion of four-year notes, he felt that the Committee should have in mind a good monetary policy explanation. The Secretary apparently had raised the question because of his interest in the System and had done so with an accompanying statement that the decision was immaterial to him from the Treasury's point of view. Mr. Balderston suggested that there might be individual comments on the point raised by the Secretary during the go-around at this meeting.

Mr. Hayes agreed that it would be desirable to have comments on this point during the go-around. He then inquired whether members of the Committee's staff had comments at this time.

Mr. Riefler asked what it would mean if the System should take some of the four-year notes simply for the sake of indicating to the Congress that it was not doctrinaire. Such a move, the

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practical effect of which would be nothing more than to make the Open Market Account portfolio somewhat less liquid, might cause some people to think that the System had attempted to do something for the long-term market when actually it had not. Persons abroad would be likely to interpret the move as an attempt to bolster the dollar.

Mr. Thomas suggested that an exchange of part of the maturing securities into the four-year note would involve a sacrifice of principle. Such a move, however, would have little practical effect. Aside from the maturing certificates, the Open Market Account portfolio contained about \$2.5 billion of bills and over \$11 billion of other securities maturing in not more than one year. Consequently, Mr. Thomas said, it was just a question of whether the Committee wanted to give up a principle or not.

Mr. Robertson inquired whether the first problem on repurchase agreements referred to by Mr. Rouse was considered settled, and Mr. Hayes responded that he had been going to raise the same question. Mr. Rouse had indicated what was said to the dealers and the matter would rest that way unless the Committee felt that the position should be changed.

Mr. Robertson then said that he agreed completely with Mr. Mills. If an established principle were to be changed, he would not change it in the middle of the stream.

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Mr. Hayes asked if there were further comments on this point, and it developed that there was unanimous agreement with the position expressed by Mr. Mills.

Mr. Rouse inquired whether it would be appropriate to raise this question at the annual organization meeting of the Open Market Committee next March, and Mr. Robertson expressed the view that this would be proper, although he doubted whether any decision at that time to change the current policy would be appropriate if the Account was again in the middle of a situation similar to that described today by Mr. Rouse.

Mr. Hayes agreed with the thought that the general question could properly come up for discussion by the Committee at an appropriate time.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period October 13 through November 2, 1959, were approved, ratified, and confirmed.

Under date of October 14, 1959, there had been sent to each member and alternate member of the Federal Open Market Committee, and to each President not currently a member of the Committee, a copy of the report of audit of the System Open Market Account, made by the Division of Examinations of the Board of Governors as at the close of business August 21, 1959. The report, which has been placed in the Committee's files, was submitted to the Secretary of the

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Committee under date of September 30, 1959, in accordance with the action of the Federal Open Market Committee at its meeting on June 21, 1939, as reaffirmed at the meeting on March 3, 1959.

Vice Chairman Hayes inquired whether any of the members of the Committee wished to comment on the report, and there was no indication to such effect.

Accordingly, the audit report was noted and accepted without objection.

Supplementing the staff memorandum distributed under date of October 30, 1959, Mr. Young made the following statement with respect to economic developments:

In introductory comment to last meeting's report, the point was made that prospects ahead appeared less weighted than earlier towards inflationary boom and more weighted to a poststrike period of high-level expansion, featuring more active competitive play of demand and supply and a tolerable stability of wholesale and consumer price levels. Indications pointing to this prospect are to be found in underlying cyclical and financial forces shaping developments; that is to say, they represent indications discernible despite the steel strike.

It needs to be recognized, of course, that settlement of the strike, after so long and so sharp a curtailment of output, could release demand forces strong enough, given a disrupted metals supply situation, to produce a quick run-up in activity and prices, a run-up having characteristics superficially inflationary. We are inclined to interpret most recent data reflective of basic trends, however, as supporting further our last meeting's interpretation. In other words, a poststrike run-up in activity, accompanied by inflationary symptoms, seems likely in the present perspective to be a self-limiting danger, in the nature of a temporary bulge.

As to the most recent news from the economic statistics front, there are various fresh items--estimates and facts--to be reported. As regards the estimates:

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(1) At the beginning of this week, the number of industrial workers idled by the steel strike is estimated to have exceeded 900 thousand and by the week end is expected to exceed 1 million.

(2) Latest available information continues to confirm our earlier estimate of a further decline of industrial production in October of 2 index points. Strike settlement could permit some rebound in November, but with steel pipelines emptied the total index recovery would probably be modest.

(3) Even with early strike settlement, fourth quarter revival in GNP will probably be moderate, with the second quarter level of \$485 billion little more than regained.

(4) The projected fourth quarter increase in business plant and equipment expenditures is now placed below earlier estimates by a significant margin. The forthcoming projections of increase in plant and equipment expenditures for 1960 over 1959 are also expected to fall below earlier guesses and well below the actual increase from 1955 to 1956.

(5) Reflecting the impact of the steel strike and the automobile industry change-over in the third quarter, preliminary estimates of third quarter corporate profits yield figures somewhat below \$46 billion, down about a seventh from the second quarter level. With present partial output of steel metal and steel fabrication and even with full recovery of such output by the year end, fourth quarter corporate profits can hardly be estimated now at much higher than third quarter profits.

(6) Third quarter seasonally adjusted income of farm operators has been estimated at a \$9.5 billion rate, down over a fourth from the high third quarter level of a year ago. Reduced cash sales and lower Government payments resulting from termination of the acreage reserve of the soil bank plus higher cash expenses account for the decline. Fourth quarter realized income of farmers is estimated to be at a higher rate but estimates for the year 1959 as a whole indicate that farm realized income will fall about \$2 billion below last year's \$13 billion.

With regard to recently reported facts:

(1) Consumer demands for autos in early October were very strong, suggesting for the month a seasonally adjusted annual sales rate of 6.9 million units. Sales of other consumer durable goods--furniture, television, and household appliances--were apparently maintained at advanced rates reached earlier. Moderate gains in department store sales from September to October suggest continuing strength in consumer demands for nondurables as well as durables.

(2) Reflecting consumers' willingness to finance purchases with credit, consumer instalment credit in September rose a further \$485 million on a seasonally adjusted basis, thus about sustaining the \$6 billion annual rate of expansion reached in July and August.

(3) Manufacturers' sales of durable goods in September, seasonally adjusted, showed little change from the reduced August level which was a tenth below June sales, but sales of nondurable manufacturers were close to the early summer record.

(4) Manufacturers' inventories again declined in September, with inventory reduction in the durable goods sector only partly offset by rise in inventories at non-durable manufacturers. Partial data point to little September change in distributors' inventories.

(5) Construction activity in September, seasonally adjusted, fell again to an annual rate of \$53 billion. This level was about 5 per cent lower than the record attained earlier this year, but better than 7 per cent higher than a year earlier. Housing starts at 1.3 million plus units, annual rate, while below the spring peak, were in largest number for any September on record. Early October residential construction plans of builders, as reported by FHA field offices, were only moderately less optimistic than a year ago. Average interest rates on conventional mortgages early in October were reported by FHA to have reached a postwar high of 6.10 per cent; in the West, the average rate was reported at 6.5 per cent, with placement fees in individual cases bringing the effective rate to borrowers even higher.

(6) U. S. exports in September showed further marked pickup, but the reported figures may be swollen by the anticipation effects of the longshoremen's strike. September import data are not yet reported.

(7) Strong expansion in economic activity continues to characterize foreign industrial nations, especially in Western Europe and in Japan.

(8) Strengthening of activity abroad, as well as continued underlying strength of demands in domestic markets, have been making for firm-to-rising prices for most basic industrial materials. On the other hand, there continue to be few reports of price increases for fabricated materials and finished industrial products. Average prices of all industrial commodities at wholesale have now been about stable for five months. In the autumn of 1955--a roughly comparable phase of the last economic cycle--average industrial prices were rising at a rate of .5 per cent per month.

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Mr. Thomas presented the following statement with regard to the current financial situation:

Financial markets are still in a transition stage. Following heavy pressures of over-all demands for funds during the preceding year, moderating of pressures began in late September and continued to characterize these markets until the past week. At this stage, it is not possible to judge whether this easing reflects a change in trend or a passing phase.

Yields on U. S. Government securities maturing from about 6 months on out to many years have declined further in the past three weeks, although during the past week there have been some upward adjustments. In some medium- and long-term issues declines in yields offset all or most of the increases that occurred in August and September. Although the longer Treasury bills have shown marked declines in yields from the September peaks, 90-day bills have continued to fluctuate around 4 per cent or higher, and all bill yields are three-fourths of a percentage point higher than they were in late July and early August. Other short-term issues are also well above levels of that period.

Yields on State and local government issues have also declined in recent weeks, but relatively not as much as U. S. Treasury bonds. Corporate bond yields have shown little or no decline from peaks reached at the end of September. Common stock prices, after declining in the latter half of September, have been steadier in October, with some increase in trading activity. There are some indications of increased interest in bonds on the part of investors, because of the higher yields on bonds than on stocks, as well as because of uncertainty as to current and future corporate profits. Current estimates indicate that profits before taxes, which reached a high level of \$52.6 billion annual rate in the second quarter, may have been below \$46 billion in the third quarter, with the possibility of little recovery in the fourth quarter. Next year's outlook is dimmed by the possibility of labor disturbances and settlements that will lead either to rising prices or lower profits--or both. However, no pronounced tendency toward a shifting of investments is as yet apparent.

New capital issues continue in moderate volume and have moved rather well at rates of over 5 per cent.

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Short-term issues by Federal agencies have been fairly large, but also have been well absorbed at rates of 5-1/8 per cent or higher. The mortgage market continued tight. Although the volume of mortgage transactions is large, commitments for future mortgages are becoming more difficult to obtain. Discounts on mortgages have continued to increase.

In October the Treasury successfully floated two cash offerings of about \$2 billion each, including a 5 per cent note of nearly 5-year maturity and a June tax anticipation bill at an average yield of 4.78 per cent. The bill promptly sold in the market at a lower rate, contrary to the usual experience with such issues subscribed for by banks to obtain tax and loan accounts. The current refunding operation, which may effect an exchange of over \$5 billion of issues held outside the Federal Reserve--a larger amount than had been anticipated--for 1-year certificates and 4-year notes, appears to be promising a successful conclusion. The Treasury will apparently need another \$2 billion of cash in late November and a similar amount in January, but the exact amounts will depend on attrition in the exchange offering and the extent to which tax returns may be affected by the steel strike.

Payment for the two new cash issues within one week was effected with little evidence of strain in the market. Moderate amounts of the issues were taken by banks--particularly those outside of New York--but for the month as a whole these takings--at least at city banks--were largely offset by earlier and subsequent sales of securities. Nonbank investors, therefore, continue to be the principal source of funds for the Treasury borrowing.

At banks in leading cities--according to partial figures for October 28--total holdings of Government securities increased slightly in October, while loans and other securities declined moderately, giving a net decline in total loans and investments. Usually loans increase in October. Commercial loans showed little change, while loans to finance companies declined by a substantial amount--perhaps more than seasonally. Loans to brokers and dealers in securities, real estate loans, and other loans showed small increases. These figures would seem to indicate some slackening--at least partly seasonal--during October in consumer credit expansion, which has been very large in recent months. The maintenance of business loans in the face of a probable further decline in inventories may indicate that borrowers are holding on to credits

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previously obtained. The continued increase in nonbank holdings of Government securities supports this supposition.

Demand deposits at city banks increased on balance during October, while United States Government deposits declined after fluctuating considerably during the month. Time deposits declined by over \$250 million during the month, reflecting decreases in interbank deposits as well as in those of others. These withdrawals may be associated with purchases of the new Treasury issues. Currency in circulation has shown somewhat less than the usual seasonal increase in recent weeks. The growth in private demand deposits at city banks was close to the seasonal pattern, but it is not yet possible to obtain a good measure of money supply changes for October because of the absence of data for country banks, which usually show a rather large increase in that month.

Reserves needed to support Treasury financing operations, which were somewhat smaller than had been expected, were more than amply supplied by an unusually large and prolonged mid-month increase in float. System holdings of Government securities were actually reduced and in addition member bank borrowings declined. Net borrowed reserves were little over \$300 million in that week, but subsequently rose to nearly \$500 million. Currency and required reserves increased less than had been projected in October, but the figure for required reserves for the latter part of the month is still uncertain.

In the current statement week, the System has again been purchasing securities to supply seasonal reserve needs. Operations have exceeded \$350 million, including repurchase contracts, some of which mature during the week. These operations should be sufficient to meet needs for the next two weeks. In the four weeks from mid-November to mid-December, about \$800 million of reserves may need to be supplied. In January approximately \$1 billion should be absorbed.

In view of the leveling out--and perhaps easing--of demand pressures on money and credit markets, and prevailing uncertainties as to the future turn of events and effects of the steel strike, there is no need for any tightening of restraints on credit expansion at this time. Nevertheless, since basic forces are still strong and the longer-run outlook is for a resumption of expansion--probably at an accelerated pace--there is little occasion for positive action toward easing the money market by increasing the availability of reserves in excess of usual seasonal needs.

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Should credit and monetary demands fall below the seasonal pattern, as appears to have been the case in the past month, some moderate easing might safely be permitted to develop.

In further comments, Mr. Thomas summarized views on the longer-run business outlook, particularly as it might affect the demand for credit, that were expressed at a meeting of the Conference of Business Economists held last week in New York City.

Mr. Johns then inquired of Messrs. Young and Thomas whether there was any substantial difference in their views on the state of the economy and the economic outlook.

Mr. Young replied that there were probably shades of difference. He had used the word "boom," but not "strong inflationary boom," whereas Mr. Thomas referred to "expansion," which could mean a strong expansion. He (Mr. Young) did not want to be committed to the position that the forthcoming period would not be expansionary, but he did feel that the current developments pointed less in the direction of an inflationary boom than was earlier considered likely. In his comments at the October 13 Committee meeting he had enumerated a number of factors that seemed to suggest a revised outlook, and those factors had been reinforced by other information that had come to light since then. These data included the McGraw-Hill survey, which seemed to point to somewhat smaller plant and equipment expenditures than previously envisaged. In substance, he did not feel that he and Mr. Thomas were very far apart.

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Mr. Thomas said he was apprehensive concerning the development of unsustainable elements in the economy that might lead to a recession. Whether these were called inflationary or not depended on one's definition. He would prefer to use "unsustainable" rather than "inflationary."

Mr. Johns then stated that the ultimate question for decision was whether a change in policy was indicated.

Mr. Thomas replied that he thought neither he nor Mr. Young would so conclude, to which Mr. Young added that the implication of his statement, on the basis of the things covered in it, was that certainly no tightening was indicated for the time being. He saw a need to watch developments unfold a little longer before making a change in policy and felt that the position taken by the Committee at the last meeting was about right.

Mr. Marget then presented the following comments on the United States balance-of-payments situation:

At the last meeting of the Committee, I reported that our figures for the outflow of gold and dollars--which we take as the measure of the over-all deficit in our balance of payments--showed an outflow during the third quarter of around \$4 billion, seasonally adjusted annual rate; and I suggested that this was better than what had been implied by the projection, produced some months ago under the auspices of the National Foreign Trade Council, of an over-all deficit for the calendar year 1959 of \$4.5 billion.

But, even apart from the fact that a deficit of \$4 billion is still a very sizeable deficit, there was a special reason for being concerned about that figure of

a \$4 billion deficit annual rate for the third quarter. The reason was this: that the gold and dollar outflow for the second quarter of this year had also been at an annual rate of \$4 billion--so that there was no net improvement in the over-all deficit as between the two quarters--despite the fact that our trade figures, particularly in the crucial field of exports, had been showing an improvement since June. Without the trade figures for September, which were not available when I last reported to this Committee, one had to speculate as to which of two possibilities was the more probable: (1) Had there been a change in the non-trade items (such as capital movements and aid transactions) which offset the improvement in the trade figures since June? Or (2) had there been a serious deterioration in the trade picture in September, sufficient to offset the trade gains of the earlier months since June? From many points of view, this second possibility was the more disturbing; because, even though one was prepared to make some allowance for the distorting effects of the steel strike, such a deterioration in the trade picture would have cast doubt on whether the movement toward balance in our international accounts, which we hoped had begun, in the critical field of exports, in June of this year, was really under way at last.

We now have the trade figures for September. It is comforting to report that they continue to give evidence of the pickup in foreign demand for our exports which has been evident since June of this year. Indeed, the export figures for September are so good that the Department of Commerce has suggested that they may have stolen some exports from the following month because of the speeding up of ship departures in September in anticipation of the shipping strike that was then threatening.

Next month's figures will tell us something about this. In the meantime, it remains true that we have to guard against two types of error with respect to developments in our balance of payments that are more widespread than they ought to be. One is the error of supposing that no adjustment is taking place in our balance of payments, particularly in the vital field of exports; the other is the error of supposing that the adjustment is taking place so rapidly and so certainly that we no longer have a balance-of-payments problem, and that we therefore have no need to frame our policies with reference to what is happening in that area.

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An over-all balance-of-payments deficit at an annual rate of \$4 billion is still a very sizeable deficit indeed; the deficit will still be a sizeable one if it is reduced to the level at which it was last year--\$3.4 billion--which, after all, was more than twice the average level of the deficits in the years 1950 to 1956, when the competitive situation in world trade was much less intense than it is now.

It cannot be reiterated too often: our trade position does seem to be improving; but it still has a long way to go.

Mr. Hayes presented the following statement of his views on the business outlook and credit policy:

Analysis of the business situation for the purpose of determining credit policy presents unusual difficulties at this time because of all the uncertainties of the steel strike. The strike has begun to exert a seriously disruptive and cumulative impact on over-all production, employment, and income; and these effects seem likely to spread further in the next three weeks regardless of strike developments. There seems, at least in our District, to have been a perceptible change in business sentiment since our last meeting. Resumption of the business expansion after the end of the strike is still generally expected, but there are growing doubts as to the vigor and duration of the expansion.

On the whole, the declines in over-all business indices such as those for orders, sales, production, and employment reported to date, do not appear too large to be attributed entirely to the strike. The decline in gross national product in the third quarter was more than accounted for by a \$9.5 billion drop in the annual rate of inventory accumulation. Although construction activity is leveling off for reasons independent of the strike and there have been declines in some time series which usually lead turning points in business, the over-all picture suggests that the underlying forces of expansion are still strong. An area of some uncertainty is the outlook for plant and equipment expenditures, but the direction of such outlays still seems to be clearly upward. Because current business statistics will, for some time to come, be largely dominated by factors related to the strike, it will probably be hard to assess the underlying general business trend in the coming weeks.

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Consumer expenditures have been better sustained than personal income, while the ratio of savings to disposable income has dropped to the lowest level since mid-1955. Moreover, consumer credit has continued to expand at a rate which can hardly go on indefinitely. Thus the expansionary effect of such credit is likely to diminish in the period ahead; and strikers and other workers laid off because of the strike have been given an opportunity to defer various payments of debt and have thus been anticipating future buying power to a considerable extent.

Recent price developments have not been encouraging. Farm prices were responsible for a higher wholesale index in September, and the daily index was rising through October; while food and services were responsible for a higher consumer price index in September. On the more hopeful side, we can find some positive elements in the Kaiser settlement in that the wage increase seems to be more moderate than those of recent years and the contract establishes machinery for company-level consideration of the broader problem of sharing the benefits of further productivity gains, with the consumer apparently included among the beneficiaries. Earlier hopes of a radical turning point in the pattern of inflationary wage settlements no longer seem justified, but there is still a chance that the industry's wage settlement will not be high enough to justify a general increase in steel prices in the next few months.

Pressure on the capital markets has abated considerably in the last few weeks, and an improving bond market psychology has been helped both by strike considerations and by the Treasury's recent financing success.

Bank loans of all commercial banks continued to grow rapidly through September, with a strong showing especially for business loans, consumer loans, and real estate loans. Fragmentary data for October are more mixed and point to a loan increase considerably smaller than in October 1955. With continued liquidation of Government securities by the banks, total loans and investments were pretty stable through September and October. The money supply shows an annual rate of increase of only about 1/2 per cent for the year 1959 to date--sharply below the 1955 gain--although some allowance should be made for the fact that Government deposits are now at a relatively high level.

There will be few weeks between now and the year-end when our policies will not have to take account of Treasury financing operations either in prospect or recently completed. Cash offerings are now expected late this month and in January.

The System faces the difficult task of devising a credit policy which is appropriate to the unusual economic pattern

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indicated for the next three weeks but which will not give rise to harmful results over the longer run. Unquestionably we should take no action that might add to the existing strain on business firms and complicate the process of adaptation to the effects of the strike. Were it not for the danger of creating false expectations which might be abruptly reversed if a firmly restrictive policy became necessary after the strike is over, I would lean toward a measurable easing of restraint for the next few weeks. However, recognizing the danger of being "whipsawed," I think the aim of policy should be to preserve a feeling of stability in monetary and credit conditions and to assure that there will be ample availability of funds for seasonal credit needs. Such a policy is indicated on general economic grounds as well as to preserve an "even keel" for some period following this week's Treasury refunding operation. I would hope the Manager would be given ample leeway to focus more on interest rates and the feel of the market than on any specific level of net borrowed reserves. I would not be disturbed if net borrowed reserves should swing fairly widely in the attainment of these aims, but I would not like to see the weekly average rise above \$500 million.

The present directive is not ideally adapted to conditions faced in the next three weeks--but since any change now might be subject to misinterpretation, I would prefer to leave it as it is. Certainly the discount rate should be left alone in this very fluid situation. It is quite possible that as events unfold we may find it necessary to meet in advance of the regular three-week interval to consider a changed business outlook.

Reverting to our informal discussion here some weeks ago as to the desirability of implementing the new vault-cash legislation during this period of seasonal credit needs, I should like to point out that projections suggest a need for about \$400 million additional reserves in the week ending December 2, and for another \$200 million in the ensuing week ending December 9. I recognize, however, that there are important complications that must be taken into account.

One other matter which I should merely like to note in passing is the absence of any stand-by powers whereby the System could reimpose selective controls on consumer credit, if this should be deemed necessary. While the expansion to date of consumer credit does not necessarily give cause for alarm, I feel that as a System we should at least be studying this area in view of the time that would be required for any enabling legislation.

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With regard to Mr. Rouse's question about the exchange of securities, I do not feel that it is vital but I would be inclined to think that if the System took, say, \$1 billion of the 4-year notes and \$4 billion of the one-year certificates, that would be helpful to monetary policy in the long run.

Mr. Erickson reported that economic activity in the First District was continuing to hold up quite well considering the background of the steel strike and the seasonal lull in some industries. The impact of the steel strike, direct and indirect, was still relatively slight in the district. The New England index of production for October was down only one point from June. The October survey of New England purchasing agents showed that 43 per cent expected an upward trend of production, which compared with 49 per cent in the September survey and 51 per cent in August, which was the peak figure. In September, construction contracts were down 16 per cent, this being the third consecutive month in which construction contracts were down. However, for the first nine months of this year construction contracts were up 2 per cent, with residential construction still 25 per cent ahead of the first nine months last year. There was a seasonal gain in nonagricultural employment in mid-August to mid-September, although somewhat less than a year ago. Department store sales fluctuated widely during the four weeks ended October 24, due probably to weather conditions more than anything else, but they still followed pretty much the same four weeks last year. On October 24, commercial and industrial loans of reporting member banks

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were \$24 million lower than the peak reached on September 30. The Reserve Bank discount window had been used less during the last three weeks than for some period of time. The September survey of mutual savings banks revealed an increase in deposits of 5.8 per cent over September of last year, which was less than the year-to-year increases had been running earlier. Real estate loans were up 10 per cent, and there had been further shifts at mutual savings banks toward paying higher rates of interest on deposits.

Mr. Erickson went on to say that investors in the First District took \$62 million of the so-called "magic fives" in the recent Treasury financing. Comments had appeared in the press regarding the effect on mutual savings banks in the New York area, and the Boston Bank made a check of the effect in the mutual savings banks in its district. In the smaller communities and cities there apparently had been little effect, and in Hartford and Providence only a slight effect. The two largest mutual savings banks in Boston have interest payment dates falling on October 5 and October 15, so it might have been expected that they would be affected more than otherwise. However, the information obtained indicated that these banks probably had withdrawals of somewhere between \$1 million and \$1-1/2 million.

Since the latest Committee meeting the Boston Bank had held its fall business roundup, and at that time most of the participants

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expected the steel mills to be back in operation by the end of October. On that assumption, they were reasonably optimistic about the business outlook. Estimates of gross national product at the end of next June averaged \$503.5 billion, while guesses on the index of industrial production averaged 160. It was expected that 4.8 per cent of the labor force would be unemployed, that the wholesale price index would stand at 120.1, and that the consumer price index would stand at 126. Over the years, Mr. Erickson noted, the estimates of this group had been on the conservative side.

Turning to policy, Mr. Erickson expressed the view that the Committee should continue to mark time, with no change in the discount rate or the directive. As to open market operations, he agreed with Mr. Hayes that the Account Manager should be given latitude. He would not increase the existing degree of restraint, and he would try to let any errors fall on the side of ease. He would not be disturbed if net borrowed reserves fluctuated more than they had recently. His views on policy were expressed on the assumption that the steel mills would resume operations shortly as the result of negotiations or under the provisions of the Taft-Hartly Act. If, however, the mills were not opened in the next week or two, he felt that the Committee might want to meet earlier than the next scheduled meeting, that is, to hold a meeting in two weeks instead of three.

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With regard to the exchange of System Account securities in the Treasury refunding, Mr. Erickson said that he had no fixed opinion but would not object to putting up to \$1 billion into the four-year notes. He thought it might be well to do that in order to show some flexibility, and such a move would not interfere with over-all monetary policy. In recent years the Open Market portfolio had sometimes contained less than the present quantity of obligations maturing in one year or less, and additional holdings were due to move into that area shortly.

Mr. Irons reported that conditions in the Eleventh District were moving along on a sort of plateau at the high level reached some two or three months ago. Speaking in the over-all sense, there had been little change during the past three-week period. Most indices were at high levels and a few had moved up slightly. Unemployment was running about 4.1 per cent of the labor force, compared with a higher national figure, and some cities were substantially under 4.1 per cent. Crude oil production was running quite steadily at recent levels, while department store sales showed little change, being up a little in October but not substantially. The agricultural situation was favorable; a very large cotton output was expected. Range conditions were expected to be good and cattle were doing all right. As elsewhere, there was some hesitancy due to the steel strike and its consequences, but inquiries continued to produce the comment that the strike had not had too much effect upon manufacturing

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industries or upon economic activity in the district. A check of thirteen major steel-using manufacturers revealed few curtailments or labor layoffs attributable to the strike. Instead, layoffs were due principally to local conditions, such as a strike in the construction industry in a particular city, or to institutional industry problems. General Motors had pretty well closed up its plant outside Dallas and Ford was beginning to cut back. Also, a number of manufacturing firms reported that they would have to close down if the strike continued as long as the end of November or December. The strike appeared to have caused no change in capital investment programs and no great surge of demand for bank credit was expected when the strike was over.

Continuing his comments on district developments, Mr. Irons said that credit demand may have been down a little recently, but not significantly. Similarly, it might be up somewhat during the next three weeks but not enough to mean anything. The picture had been moving along on that basis since the middle of June or July. The seasonal movement this year appeared to be a little slower than usual and demand was probably a little less marked. While borrowing from the Reserve Bank was not heavy, those district banks engaging in Federal funds transactions were now net borrowers.

Mr. Irons sensed from discussions in the district a little less conversation at the moment about tight money. In financial circles there appeared to be an attitude of watchful waiting to

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see what might happen. The insurance companies were doing promotional work in the form of an anti-inflation campaign that had been drawing some public interest and publicity.

In view of the economic picture in the Eleventh District, which he felt was not too different from that in the nation as a whole, Mr. Irons said that he would recommend no change in basic policy. He would not try to bring about any less restraint, but rather to maintain about the degree of restraint that had prevailed in the past few weeks. If there should be any deviations, he would prefer that they be on the side of ease, looking on any such deviation, however, as an inadvertent heppenstance rather than a deliberate attempt to ease. He would not be too disturbed if a little ease should remain in the market, but he would not allow it to accumulate to any great extent. He agreed that the Account Manager should have leeway to maintain about the same degree of pressure on reserve positions. He was not particularly concerned about the level of net borrowed reserves, particularly at the present time; he was concerned much more about the level of interest rates and other conditions in the market that the Account Manager might sense. He did not expect much of significance to happen in the next three weeks even if the steel strike should be settled. If it were settled, it might be possible to see better the shape of things to come, but he would not expect any significant change in the near future. He would favor no change in the discount rate or the directive.

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On the question raised regarding the refunding, Mr. Irons said he did not feel strongly about the exchange of System Account holdings. However, he would prefer to take the one-year certificates and not allocate \$1 billion to the four-year notes. He saw no good reason to do otherwise. To take some of the four-year securities would not mean being less doctrinaire; it would not make much difference from the standpoint of monetary and credit policy and would seem like an attempt to fool somebody. While he would be willing to deviate from a policy of rigidity, he would like to have a good reason that could be explained, and a decision to take some of the four-year notes could not be explained on grounds that it connoted a flexible policy. Accordingly, although he would not feel too strongly on the matter, he would prefer not to split the exchange.

Mr. Mangels reported that a recent meeting of the California State Governor's Business Advisory Council had produced several items of interest that might be regarded as straws in the wind. A representative of insurance companies reported that at a recent Chicago meeting the insurance industry had agreed to spend a substantial amount for advertisements in 400 United States newspapers against inflation, while a representative of the automobile industry reported that General Motors Acceptance Corporation was planning to gear its 1960 operations to estimated sales of between 6.2 and 6.5 million cars. The Food Machinery and Chemical Corporation reported that it had sufficient steel to last for the remainder of this year; it

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also indicated that for the past year it had been establishing plants in foreign countries to meet competition in markets outside the United States. This company's recent domestic expansion had been in areas outside California because of considerably higher labor costs in that State than in other areas, with the result that San Jose, where a large part of the company's production facilities were located, would more and more become a research and development center. A representative of the aircraft industry forecast that total aircraft employment in California would continue to decline for the next two years. One factor was an increase in the complexity of defense items and their cost, thus reducing the physical volume of production; there was also a reduction in airframe construction resulting in increased manufacturing of defense hardware outside the State. Further, most of the aircraft companies had reached the peak of production of commercial airliners and all would reach that peak early in 1960. Nevertheless, this participant in the conference was optimistic because of engineering, scientific, and technical skills found in the aircraft industry in California. Of 240,000 aircraft employees in California, it was said that 18 per cent had college degrees in engineering or science and that another 18 per cent were technicians.

Regarding the Kaiser steel settlement, Mr. Mangels said it was at first hoped that the start-up period might take only about

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ten days. Then it was found that there had been extensive damage to open-hearth furnaces and it now appeared that it would be at least a month before sizable shipments could be made. For three weeks, it appeared that operations probably would only average about one-third of capacity. Mr. Mangels also reported that residential construction in August was up 9 per cent over July. He felt, however, that this was a temporary bulge and did not represent a change in trend. Lumber output in September and October was at a rather high level despite lower prices and reduced demand. In agriculture, heavy crop marketings brought returns 5 per cent above a year ago in spite of lower prices. The response to the new-model automobiles had been favorable but dealers were limited in their stocks of both 1959 and 1960 cars. Department store sales continued to be somewhat above the figures of a year ago, both on a month-to-month and on a cumulative basis, but the rate of improvement had declined somewhat. In September, unemployment in the district increased to 5 per cent.

On the financial side, Mr. Mangels said that during the three-week period ended October 21, bank loans were up \$43 million, with \$26 million of this increase in loans to retail traders. Of this increase, \$17 million occurred in the week of October 21, principally because of a loan to one large retail firm for accounts receivable financing. Security holdings of reporting banks were up \$47 million, demand deposits were up \$91 million, but time deposits

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were off \$38 million although savings accounts increased \$50 million. For the first time in ten weeks, district reporting banks last week were net purchasers of Federal funds. Borrowings at the Reserve Bank continued quite nominal. The average ratio of borrowings to reserve requirements in September was .4 per cent.

With respect to policy, Mr. Mangels said that he agreed with the views expressed by Mr. Hayes and that he would not favor changing the directive or the discount rate at this time. As to the exchange of System Account securities, Mr. Mangels said he agreed with Mr. Irons. In the absence of a factor such as existed when the earlier partial exchange into longer-term securities was made, he felt the Committee would be well advised to stay in short-term securities. However, he would have no strong objection to taking \$1 billion of the four-year notes.

Mr. Deming said that Ninth District economic indicators continued to lag those for the nation. This reflected the lack of iron and copper mining activity and a weak agricultural situation. He recalled having said at the preceding Committee meeting that if the steel strike ended promptly there would be 17 million tons of potential iron ore production for the balance of this year. Now the potential was down to 10 million tons. The Soo lock closing had been announced for December 12; thus after that date no ore boats would go down the lakes. Rail shipments of ore could not

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and would not be large. In western Montana the copper mining strike was continuing, causing Anaconda to toy with the idea of closing its mining operations for an indefinite period if there was no settlement soon. As yet, however, this was not regarded as a serious proposal.

Mr. Deming said that the uncertainty in the national scene plus the forthcoming Treasury financing seemed to argue for no change in basic policy at this time, although he would go along with any deviations being made on the side of ease. In his view it would be inappropriate to change the discount rate or the directive at this time. With respect to the exchange question, he agreed with Messrs. Irons and Mangels since he did not see how the Committee could demonstrate any more flexibility or a less doctrinaire approach to open market operations by splitting the take-up of the exchange issues. Therefore, although he did not feel strongly on the matter, he would favor exchanging entirely into the one-year issue.

Mr. Allen made substantially the following comments with respect to Seventh District developments and with respect to monetary policy:

Despite the steel strike, and its impact on the automobile industry, the employment situation in the Seventh District cannot yet be termed bad. Our cities as a group make a far more satisfactory picture than that of the rest of the nation as a whole. Through the first three weeks of October there was surprisingly little rise in unemployment compensation claims in Seventh District States. The number of new claims for the five States combined was less than during the same period last year. Of course we expect the situation to worsen rapidly, but thus far it has not deteriorated at the pace expected.

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Farm income has declined in the District, with the decline greatest in the Corn Belt States--understandable with hog prices 25 - 30 per cent lower than last year. However, the large crop of feed grains should boost farm income in the last quarter, and our country banks which have suffered a drop in demand deposits are hoping to see that trend at least arrested.

Bank loan growth has slowed in the past month; in fact total loans of weekly reporting District banks declined \$30 million in the first three weeks of October. Security holdings, on the other hand, show that acquisition of the June tax bills and, to a lesser extent, the 5 per cent notes, more than offset the net reduction in holdings of Governments earlier in the month. These recent acquisitions, in the eyes of some of our banks whose basic reserve positions should not encourage any increase in loans or investments, are justified under the guise of helping the Treasury. And the improvement in the bond market is not proving to be a discouraging factor; rather, it makes continued help for the Treasury a more necessary and a more pleasant so-called duty and administration of the discount window more difficult.

We are impressed, or perhaps the right word would be depressed, by the number of wage settlements coming to our attention which call for substantial wage increases in the neighborhood of 20 cents or more per hour--most of them to be effective over a period of not more than two years. It is still a question as to how effective monetary policy can be in combating these inflationary influences but they strongly suggest to us that the present is no time to contemplate an easier policy. On the other hand, in the light of the lower level of business activity, however temporary it may turn out to be, I am not disposed to recommend a more stringent policy at this time. Consequently, I would favor endeavoring to continue the current degree of restraint for another three weeks. As to the exchange, I would favor sticking to the shorter securities.

Mr. Leedy stated that there had been no significant changes in the Tenth District since mid-October. The secondary effects of the steel strike on employment in the district had not yet been particularly great. However, projections indicated that if the strike should continue beyond the middle of November there would be a sharp increase in unemployment.

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With respect to policy, Mr. Leedy said he was in accord with the views that had been expressed thus far. He was somewhat surprised that the System had been able to get along as well as it had over the past period in following the policy that had been set. In the light of the forthcoming Treasury financing and economic conditions generally, he saw no reason for an immediate change in policy. Accordingly, he would favor continuing the present policy. As to the exchange, he would find it difficult to assign a convincing reason for splitting the System's subscription between the longer and the shorter maturities. The Government securities market had given a good account of itself recently and the reasons that existed earlier for making a departure from the usual practice did not seem to have weight at the present time. As he understood it, the Secretary of the Treasury had indicated that the matter was immaterial from the Treasury's standpoint and also had suggested that the System should not be expected to sacrifice any principles. Therefore, Mr. Leedy said, he would go along with others who had expressed the view that it would be preferable to take the entire amount in the shorter-term issue.

Mr. Leach made substantially the following comments:

While the most noticeable effects of the steel strike are still concentrated in certain industries in Maryland and West Virginia, its impact on the District economy is definitely spreading. Probably the most tangible evidence of this is in the continuing decline in man-hours worked in manufacturing industries. Despite the strike, however,

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activity in leading industries, such as textiles, chemicals, furniture, and cigarettes continues at a very high level. Employment generally is only slightly below the peak 1959 levels established prior to the strike.

Rising cloth prices and lower cotton prices have further strengthened the textile outlook, and profits are at their highest level in many years. Producers report large order backlogs with production of print cloths substantially sold into the second quarter of 1960. Finished goods inventories are abnormally small. The industrial chemical industry in West Virginia is reportedly running at peak capacity. Furniture production and shipments are increasing from their near-record levels. Cigarette production is running 6 per cent above 1958, which was a record year in this industry.

Pressures on District banks were eased somewhat during most of October as evidenced by a less than seasonal loan demand, a very low level of borrowings from the Federal Reserve Bank, and sales of Federal funds. During the past week, however, member banks borrowed more heavily from the Reserve Bank and shifted from sales to purchases of Federal funds. Contrary to the situation in the Dallas District, as reported, I hear comments about tight money everywhere I go.

The current refunding and prospective Treasury borrowing seem to preclude any real change in policy during the next three weeks. The steel situation cannot be settled through monetary measures, but the adverse effects of the strike on the economy are increasing. It seems that this development should be given some recognition under a flexible monetary policy and be reflected in the policy record. Perhaps we could agree that seasonal needs for reserves should be met somewhat more readily. Certainly all doubts should be resolved on the side of ease. I would not favor a change in the directive or a change in the discount rate at this time.

With respect to the exchange, I do not have a strong opinion. I like to be flexible but know of no good reason to take any of the four-year notes.

Mr. Mills said he would like to restate his position that the System would be well advised to move cautiously toward a less restrictive credit policy. He was increasingly clear in his own mind

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that the economy was passing through a period of rather drastic adjustment. While that adjustment was being made, the System was tending to make its projections and to determine policy against a momentum of past events reflected in statistics that were no longer reliable. Accordingly, the recommendation that he would make first would be to revise the policy directive by changing clause (b) to read "to fostering sustainable economic growth and expanding employment opportunities while guarding against inflationary credit expansion." To go further into the reasoning that brought him to this position, Mr. Mills read the following statement:

There are strong advocates of the theory that an effective monetary policy can only overcome the lag in its impact on economic events if such events are anticipated well in advance of their occurrence and appropriate countermeasures then undertaken. The most active proponents of this theory lay greatest emphasis on the importance of formulating a monetary and credit policy that will act as a backfire against an anticipated outburst of inflationary pressures, and in practice are apparently prepared to take the risk that the policy actions which they support may miscalculate the future and induce deflationary pressures.

Whether it is within the capacity of the human mind to read the future accurately and to conduct a monetary policy adapted to an assumed future course of events is open to argument. In any event, however, forecasting, when translated into the formulation of monetary and credit policy, should give as much weight to possible deflationary as to inflationary developments, and doubt should at least be resolved on the side of a middle of the road policy. At the present time, future uncertainties are strong enough to argue for a monetary and credit policy that will lessen the degree of restraint over credit expansion that is implicit in the level of negative free reserves that is presently imposed on the commercial banking system. The cumulative effects of

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current policy actions may already have curtailed a normal seasonal expansion of commercial bank credit that may account for the easing that has occurred in the demand for bank credit which, in turn, can be put to policy advantage by permitting its moderating effects to be reflected in an improvement in bank liquidity.

A lessened demand for bank loans as transposed into an increase in bank holdings of U. S. Treasury bills should not be thwarted by the maintenance of a severely restrictive monetary and credit policy. Instead, the gradual modification of current policy that has been made automatically possible in the slackened demand for bank credit should be reinforced further by lightening the pressure on bank reserves to the extent that whatever divestment of recently acquired U. S. Government securities banks may find necessary in order to meet other legitimate credit demands can proceed unhurriedly and without subjecting the U. S. Government securities market to depressive price influences. Implementation of such a policy conforms to the belief that the economy can only be freed from the lagging and cumulative downward effects of past System policy actions if the level of negative free reserves is slowly reduced. A cautious modification of policy should be possible of accomplishment without major repercussions on the prices of U. S. Government securities. For that matter, any risk of instigating a speculative upward movement in the prices of U. S. Government securities that is inherent in a modification of existing Federal Reserve System monetary and credit policy is outweighed by the greater risk that its continuation will in due course have so severely limited the availability of credit as to require a drastic policy reversal. If that should be the case and liquidity is then forced into the economy by policy actions as an antidote, the stage will have been set for a new and immoderate swing in the Federal Reserve System's policies.

With regard to the exchange, Mr. Mills said he wished to align himself with those who would exchange into the one-year maturity.

Mr. Robertson said that despite the scholarly presentation of economic factors and judgments by Messrs. Young and Thomas the

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future--even the short-term future--was so uncertain in his own mind that he could see no justification for a change of policy. In saying this, he hoped that the System would do nothing toward lessening of restraint. He had felt for a long time that the System was not being tight enough. In recent weeks, he had the feeling that perhaps he might have been wrong and that the policy had been just about right and was beginning to take effect. Last week, however, he was not sure this was the case. At present he would recommend staying just about still, with no intentional diminution of restraint. This posture, he felt, was needed as a starting point to deal with the situation as it unfolded following settlement of the steel strike. He would not change the directive or the discount rate at this time. As to the exchange, he would also align himself with the majority of those who had spoken. He did not think that the System would eliminate the charge of being doctrinaire by a change in the usual policy which had no apparent reason and which would not actually indicate flexibility.

Mr. Shepardson noted the high degree of uncertainty at the present time as to future trends. Because of that situation, it seemed to him highly desirable for the System to maintain its present position. He felt the Committee should not overlook the comments by Mr. Allen regarding the wage settlements that had been taking place and that it seemed reasonable to expect would be

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reflected sooner or later in price adjustments. The movement of prices reported by Mr. Young was still another matter of concern. As System experience would indicate, it is always easier to ease than to tighten. Therefore, while there might be adverse effects of the strike that would retard the movement of the economy most generally expected in the months ahead, he felt that the System would be well advised to maintain its present position until further developments made themselves clear. Accordingly, he would maintain the present degree of restraint giving appropriate leeway to the Manager of the Account to measure the effect of that restraint. He would not favor changing the directive or the discount rate. As to the exchange, Mr. Shepardson noted the statement that no particular reason had been advanced for changing the usual policy. However, it had also been implied that there was no particularly strong argument against deviation. If the latter was true and if there might be some beneficial psychological effect in some quarters, he would see no harm in splitting the System's subscription to take on the order of \$4 billion of the one-year securities and \$1 billion of the four-year securities.

Mr. King said he saw no reason to rejoice in the fact that the steel settlements already made were perhaps less inflationary than the ones entered into a few years ago. The settlements made thus far probably were going to be inflationary to some extent. One might delude himself into thinking that wage increases in the

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vicinity of 20 cents an hour were not particularly inflationary, Mr. King said, but they sounded quite inflationary to him unless they were coupled with other things that the steel industry had been trying to achieve. He did not know that any of those things had been achieved and gathered that they probably had not.

Mr. King expressed the view that the degree of restraint in force had been desirable and adequate. In the face of current uncertainties, he would give no evidence to the public of a change in policy one way or the other, although he would feel that the Account Manager should have leeway to do as he thought proper in this uncertain period. With respect to the reference that had been made to the possibility of another Committee meeting before three weeks, Mr. King said he could not conceive of any development taking place so fast as to necessitate a special meeting. He would think that a meeting at the normal time probably would be adequate to take whatever action might be necessary. He would favor leaving the directive in its present form and making no change in the discount rate at this time. With regard to the exchange, he would not take the longer-term security. The Committee probably was justified in acting to authorize a split earlier this year when the Government securities market was under considerably more pressure than at present, and if the market developed more pressure at some time in the future he might again favor such a decision. At the present time, however, the market seemed to be doing quite well and appeared to have turned a hill that it had to climb.

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Mr. Fulton reported that the steel strike had exerted profound effects in the Fourth District. Unemployment was now rising rapidly, as evidenced by the fact that General Motors, the largest employer in the Cleveland area, had practically shut down its operations. Inventories in the hands of steel customers were lower now than had been thought possible. Further, there was the concern that the strike had lasted so long that an actual permanent loss of tonnage demand had occurred. This year it was expected that the figures would be about 95 million tons of production against projections of 115 million tons, which left a residue of 20 million tons not produced. It was feared that about 25 per cent of this loss would be irretrievable. Also, there had been an unknown amount of damage to the equipment and furnaces by reason of their lying idle this long, and it was not anticipated that much tonnage would be turned out for the first two or three weeks, particularly since the mills had shipped practically everything on the floor before the strike. In addition, the ore situation was tight. There were ore boats still in the Cleveland harbor with no place to go, there was a limited time remaining for pulling ore down, and many crew members had gotten other employment. While it might be possible to squeak through the coming spring, it would be necessary to have some high cost ore brought in by rail. The agreement with Kaiser read quite well on the surface: 10 cents an hour in fringe benefits the first year, and then the cost admitted

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in the second year would be about 9-1/2 cents. However, steel men maintained that if the same package were accepted by the older mills it would cost those companies about 19 cents an hour the first year and then the other 9-1/2 cents. There was great pressure on the part of the union for the companies to accept that kind of settlement but without doubt such a settlement would mean a significant increase in the price of steel. The steel companies reportedly had made three offers, each one a little better than the preceding one, but the union apparently had made no counter-offer after the original proposal.

In the field of automobiles, Mr. Fulton said, production was now very flat, with only Studebaker and American in good production. In a recent conference of business economists held at the Cleveland Bank, it was indicated that it would take six or seven weeks for the automobile industry to get back to prestrike levels. With sales high, inventories of dealers would be reduced substantially. It is presently anticipated that 6.5 to 7 million domestic cars will be produced in 1960. On the brighter side, the rubber industry was overcoming inventory deficiencies. Tire stocks were at record lows and the industry was now building stocks to load up the dealers, a normal process at this time of year. It was felt that demand again would be good in 1960. The glass industry had not shut down because this period was being used to rebuild stocks of glass used by the auto industry. Plate and window glass had also gotten quite low. Manufacturers of large appliances recorded that sales were up 19 per

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cent over last year and that it was hard to maintain inventories. Production was going "out the window" to consumers, perhaps because consumers felt that steel would be short and it would not be possible to get the appliances later. Business machines were reported to have been showing strong sales this year and enough steel reportedly was available to continue operations through the rest of the year. In aluminum, this had been a record year for primary production but customers found themselves with large inventories. Orders therefore had been falling off, with production cut back.

Mr. Fulton said that the district unemployment situation was not good. In Youngstown, Ohio, for example, over 25 per cent of the labor force was out of work due to the effects of the strike upon the steel industry and allied industries. Department store sales, however, had been holding up quite well and for the district as a whole were 6 per cent over last year. Loans of district reporting banks declined slightly during the past week, while total deposits increased. With the exception of the week ended October 28, when country banks borrowed rather heavily, member banks had not been coming to the discount window to an unduly large extent. Borrowings had been running from 5 to 7 per cent of the national total.

Mr. Fulton said that he did not believe any relaxation of policy should take place. He felt that the Desk had done a good job and that ample latitude should be given to the Manager of the Account

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with a view to maintaining the current degree of firmness in the market. He would favor no change in either the directive or the discount rate. With regard to the exchange, he concurred in the views expressed by Mr. Shepardson. The effect on the liquidity of the Account seemed to be a matter of academic interest, at least in the small degree that it would be affected by a partial exchange into the four-year securities. Accordingly, for the sake of appearance alone and in the absence of any strong reason for not doing so, he would consider putting \$1 billion in the four-year notes and the balance in the one-year securities.

Mr. Bopp made substantially the following comments:

We have just completed our annual survey of capital expenditures by manufacturers in the Philadelphia area, and they are expected to be about the same in 1960 as expenditures this year. Estimates for 1959 total about the same as the revised estimates reported in a re-check last spring, but the total is substantially higher than for the original estimates made last fall. Our experience has been that manufacturers underestimate their expenditures during periods of business expansion, the underestimate usually being largest during the first year of the upturn. Manufacturers also reported that they expect little change in employment, production, and inventories from the third quarter of this year to the second quarter of 1960. Nearly 70 per cent of the firms expect their inventories to remain about the same, 18 per cent expect an increase, and 12 per cent a decrease. A re-check with several of the large firms last week revealed that their capital expenditure plans have not been affected so far by the strike.

Idleness caused by the strike increased about 14,000 in Pennsylvania in the past three weeks, according to the Pennsylvania State Department of Labor and Industry. This is about one-third more than the increase in the previous

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three weeks. Metals and metal products manufacturing and railroads accounted for most of the newly idled. Nevertheless, new and continued unemployment claims have not risen significantly.

I agree that there should be no change in the degree of restraint, in the discount rate, or in the directive. With regard to the exchange, I do not feel strongly, since whatever we do will have no effect on the liquidity of the economy and the liquidity of the central bank creates no concern on my part. On balance, however, I would take the one-year certificates.

Mr. Johns said he wished to align himself with those who had stated that they would not vary policy one way or the other at the present time. He would like to adopt as his own views the analysis presented by Mr. Robertson. Without arguing the merits of the exchange question, he would express himself firmly on the side of exchanging in full into the shorter-term securities.

Mr. Szymczak said he felt this was a time when the System ought to ease somewhat the policy followed through the spring and summer. He would not change policy to the extent of changing the directive, but he would get ready for a change in case of developments that might result from the strike and in view of the dampening of the economy that usually comes after the beginning of the calendar year. Developments could snowball into something quite serious. Accordingly, he would recommend some easing, to the extent that it was possible for the Manager of the Account to ease without a change in basic policy. As to the exchange, it would have been most unfortunate had the Secretary of the Treasury requested that the System take \$2 billion or \$3 billion of the longer-term securities.

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However, the problem of the Secretary must be borne in mind. To the extent that the System could assist in meeting this problem, he (Mr. Szymczak) would favor going along and taking some of the four-year notes, even up to \$2 billion, rather than to wait until the Secretary might ask the System to follow such a course.

Mr. Balderston said that the central question was the extent to which the steel strike was resulting in permanent injury to the economy as opposed to a mere postponement of the filling of demands. Between now and the time of the next Committee meeting the impact of the strike would become more apparent as stocks were exhausted and workers were laid off. Already the available data indicated a reduction of inventories at an annual rate of about \$10 billion, and the situation had begun to be reflected in a lower demand for business loans. Turnover of demand deposits outside the principal financial centers leveled off some five months ago and the increase in the money supply has been only about 0.5 per cent. In short, the strike seemed not only to be pushing part of the boom over into whatever valley might be ahead but was continuing to a point where some actual injury to the economy might be evident between now and Christmas.

As to policy, Mr. Balderston said that he would favor no increase in restraint. He felt, however, that the current degree of restraint should be continued until the situation clarified itself. If there were to be deviations, he would hope that for

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the immediate future they would be on the lower side. He did not feel strongly about the exchange. However, he lacked an explanation as to why the System should take any of the four-year notes. Consequently, he would stick with the shorter securities.

Summarizing the meeting, Vice Chairman Hayes said that certainly the overwhelming view expressed today was in favor of no change in basic policy. There had been considerable indication that the Manager of the Account should have leeway in implementing that decision. More comments were in the direction of saying that there should be no increase in restraint or that any deviations should be on the side of ease, to the extent that there were deviations, than there had been comments in the opposite direction. In neither direction, however, had the comments been frequent enough to constitute a majority view. The consensus, therefore, favored no change in basic policy, with ample latitude to the Manager of the Account in carrying out that decision. The consensus also favored no change in the discount rate.

The Vice Chairman inquired whether there was any disagreement with this statement of the consensus, and no comments were heard. He then inquired whether any Committee member wished to vote negatively on the policy indicated by the consensus.

Mr. Mills stated that his vote should be recorded as contrary to the consensus. He added, however, that in his opinion the Committee was making a serious mistake in voting on this subject and that a

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record vote was going to produce comment, discussion and investigation that would not be helpful to the Federal Reserve System.

The Vice Chairman then stated that in the absence of Chairman Martin he felt the Committee should not revise the procedure instituted at the last meeting. Certainly the subject was open for discussion, and the Committee was only experimenting with the current procedure. However, he would be inclined to follow, at least for the time being, the procedure that the Chairman followed at the last meeting.

Mr. Szymczak commented that his position was not sufficiently different from the consensus as stated by Mr. Hayes for him to record a negative vote, although he thought his position was closer to the individual views Mr. Hayes had expressed earlier than to the consensus.

Mr. Hayes likewise commented that his position was not sufficiently different from the consensus to cause him to vote against the policy indicated by the consensus.

Mr. Szymczak then inquired whether the point Mr. Mills had raised about voting procedure would not come back for further discussion, following which Mr. King asked for clarification on the purpose of the vote.

In response, the Vice Chairman noted Mr. King's comment that he thought the statement of the Chair properly set forth the consensus

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of the meeting. However, the purpose of the vote now being taken was to determine whether the members of the Committee agreed with the policy views set forth in the consensus as stated, or whether any member wished to be recorded as voting in opposition to those policy views. In other words, this was a vote on the policy to be followed until the next meeting.

Mr. King then inquired whether a vote on the policy directive would not afford a member sufficient opportunity to record himself, to which Mr. Hayes replied that the opinion had been expressed by certain members of the Committee that a vote on the directive did not provide a sufficient opportunity. Therefore, the Committee was experimenting with this procedure.

Mr. Shepardson said he had thought that Mr. Mills was one of those who felt there should be a record vote on the policy indicated by the consensus.

Mr. Mills replied in the negative. His contention, he said, was that the minutes in the past had recorded a vote that was not actually taken by poll of the Committee members. In response to a further question, Mr. Mills said his preference would be that a consensus be reflected, that a vote not be asserted, and that the minutes be drafted in a manner that would indicate the different polls of opinion. The consensus would state the policy.

Mr. Szymczak commented that the opinions he had stated would be recorded in the minutes and that such a procedure was sufficient as far as he was concerned.

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Mr. Mills said this was what he had felt in the past but that he objected to recording as a vote a consensus of opinions which on occasions hid a rather wide range of individual policy views.

The Vice Chairman inquired of Mr. Mills whether he would advocate the procedure that was followed up until the last meeting of the Committee.

Mr. Mills indicated an affirmative response, except that he objected to recording a vote that was not actually taken.

Mr. Erickson said it was his understanding that the consensus would stand as always. However, within that consensus the opinions might vary from one extreme to the other.

Mr. Robertson interjected that the statute called for a vote on policy.

Mr. Mills said that he did not recall the exact language of the statute and that he was not certain that it contained a mandate for a vote.

The Vice Chairman then turned to Mr. Hackley for clarification of the statutory requirement. Mr. Hackley stated that the statute does, in so many words, require a vote. He then read the last paragraph of section 10 of the Federal Reserve Act which provides that the Board of Governors (rather than the Federal Open Market Committee) shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating

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to open market operations and shall record therein the votes taken in connection with the determination of open market policies and the reasons underlying the action of the Board and the Committee in each instance. The paragraph further provides that the Board shall keep a similar record with respect to all questions of policy determined by the Board and shall include in its annual report to the Congress a full account of the action so taken during the preceding year with respect to the policies determined by it and shall include in such report a copy of the records required to be kept under the provisions of this paragraph.

Mr. Hackley said that it was clear, therefore, from the law that the vote on any open market policy action taken by the Committee must be recorded. The question was what constituted such an action.

Mr. Hayes agreed that this was the question, adding that there had been a difference of interpretation in the past as to whether the action taken on the directive was the only policy action taken.

Mr. Riefler commented that it had always been assumed in the past that the action on the Committee's directive constituted the action on the policy to be carried out during the period between that meeting and the next one. However, in the past year or two a question had been raised regarding this procedure, and the modification presented by Chairman Martin at the October 13 meeting had been suggested with the thought that it would help answer this question.

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Mr. Hayes said that if anyone, like Mr. Mills, felt that the Committee was proceeding on the wrong tack it would be desirable for that member to give the Committee a memorandum of his views and to discuss the matter at a future meeting. Although he was not present at the last meeting, it was his understanding that the Committee was proceeding on an experimental basis with the revised procedure.

In response to a question from Mr. King regarding Chairman Martin's letter of October 9, 1959, suggesting a modification in the voting procedure, Mr. Hayes stated that the procedure did not contemplate a vote on whether the Chair had stated the consensus correctly, but rather on whether the Committee members approved the policy indicated by the consensus.

Mr. Riefler noted that the first step in Chairman Martin's letter indicated that the Chair would guide the discussion to a statement of the consensus. The second step contemplated was a vote on the policy embodied in the consensus.

Mr. Hayes noted that this vote had just been taken and that one dissent had been found.

Mr. Johns, who was not present at the October 13 meeting, said that upon reading Chairman Martin's letter, and even now, he was a little confused by the idea that the Committee would have two policy determinations, one on the policy indicated by the consensus and the other on the directive. He inquired in what respect these determinations were thought to be different.

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In reply, Mr. Riefler said that the Committee had always assumed that the vote on the directive to be issued to the Agent Bank was the vote on the policy to be carried out and that operations must always be within that policy for the period until the next meeting. This had been challenged within the past year or two, and it had been suggested that the Committee was not really taking a vote on policy and that the minutes were not truly reflecting the Committee's decisions on policy. As a result of this question having been raised, the procedure suggested in Chairman Martin's letter of October 9 was devised as a procedure that would meet the legal requirements for a vote and which would give an additional chance for any member who wished to do so to vote against the policy as stated in the consensus. This was in addition to the vote on the directive to the Agent Bank.

Mr. Johns said it seemed to him that such a procedure necessarily involved some sort of admission that there might be a difference between the directive and Committee policy. It also probably involved a confession that during all the years when the other procedure was followed the Committee really had not recorded its policy decisions correctly.

Mr. Hayes commented that this might be possible but that another interpretation could be that the directive states policy in very broad terms and that this was a step to refine it more definitely within that broad policy. He then inquired of the

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Secretary who had challenged the former procedure, to which Mr. Riefler replied that the question had been raised originally by Mr. Mills.

Mr. Johns then said that, as he understood it, Mr. Mills merely had challenged that the minutes recorded a vote that was never actually taken.

Mr. Szymczak commented that, in policy matters, no one can be so precise as to know exactly the proper amount of restraint to be applied at any particular time. Therefore, there must be varying degrees of acceptance of the agreed upon policy.

At this point the Vice Chairman suggested that since Mr. Mills originally had raised the question on the procedure that had been followed, it would be helpful if Mr. Mills would submit a memorandum of his views as to why the procedure instituted at the October 13 Committee meeting did not meet the objection that he had raised earlier.

Mr. Mills stated that he would be agreeable to presenting such a memorandum.

With regard to the policy directive, the Vice Chairman noted that a suggestion for a change in clause (b) had been made by Mr. Mills. As he recalled, everyone else who mentioned the directive expressed the view that it should not be changed at this time. He then inquired of the Committee whether it desired to change the directive in accordance with the suggestion of Mr. Mills.

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Mr. Balderston observed that Mr. Leach had indicated some degree of discomfort with the fact that the directive had not recognized a situation (the steel strike) that was of concern to the Committee. While he shared this thought, unless there was actually a change in policy he (Mr. Balderston) would not desire to change clause (b) of the directive. On the other hand, the directive was going on meeting after meeting with no reflection of the situation discussed by the Committee.

Mr. Johns expressed the view that the policy record would explain and distill the comments that would appear in the minutes regarding the steel strike. Thus, he did not think that in the policy record that would appear in the annual report the steel strike would be overlooked.

Mr. Riefler added the comment that a shift in policy actually occurred at the meeting on September 22, 1959, when the decision was made that any deviations should be on the side of ease.

Mr. Hayes then inquired whether there were other comments as to wording of the directive, and Mr. Mills stated that he would vote "no" on its present wording.

The Vice Chairman stated that a vote would be recorded as favoring no change in the policy directive, except that Mr. Mills dissented. He added that the minutes would reflect the language suggested by Mr. Mills.

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Thereupon, upon motion duly made and seconded, the policy indicated by the consensus, as stated earlier by the Vice Chairman, was approved, Mr. Mills voting "no" for the reasons he had stated.

Upon motion duly made and seconded, the Committee then voted, with Mr. Mills voting "no," 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.

With respect to the exchange of maturing securities now held in the System Open Market Account, the Vice Chairman stated that the

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majority clearly favored taking the shorter-term securities only. Therefore, unless someone wished to change his position in the light of the go-around, that would stand as the decision. He inquired whether anyone wished to change the views that he had previously expressed and there were no comments to such effect.

The Vice Chairman then noted that four Committee members, during the go-around, had indicated that they would favor taking some of the four-year notes.

Mr. Thomas commented that one reason that might be cited for taking some of the four-year notes was that there would be a possible risk of having an outstanding issue held predominantly by the System. Conceivably, the result might be that \$5 billion of an issue totaling less than \$7 billion would be held by the System.

Mr. Hayes said that, abandoning his position as Chairman of the meeting, he was sympathetic to the point Mr. Thomas had made. There was an area of doubt and he felt that the Secretary of the Treasury, in spite of his expression of neutrality, would be happier if the System were to take some of the four-year notes. Under these circumstances, Mr. Hayes said he would take a modest amount.

Mr. Shepardson stated that he felt there was a difference between a general policy against buying longer-term securities in

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the market and taking a portion of longer-term securities on exchange. He would not be in favor of going into the market and buying longer-term securities but on an exchange the proposition seemed to him somewhat different.

Mr. Hayes noted that this point had been brought out in connection with the refunding earlier this year.

Mr. Mills then said that he would like to present a basis for taking the shorter-term securities in entirety. It was only at the last refunding that the System split its subscription, and that produced a certain amount of comment in the press. If the System again split at this time, it might in the eyes of the interested public seem to be making a change in its basic policy. Thus, the public might reasonably look forward to a repetition on each similar occasion when the System held maturing securities. Mr. Thomas recalled two occasions--one last year and one this year--when a split was made, and Mr. Mills added the comment that in such circumstances the System might appear all the more to be falling into a groove.

Mr. King commented that if the System took \$1 billion of the four-year notes, that would be a relatively small portion of the total financing. If the Committee were going to depart from its general policy, he would rather depart from it at a time when the market was in more trouble than at present and then possibly take a larger amount of the longer-term issue. The question

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involved the principle of whether the System was going to go into the longer-term issue every time.

Mr. Szymczak said he had the reverse feeling. When the System patently was going in to help the Treasury, the market would clearly assign that as the reason. However, on an occasion when the Treasury did not appear to need any help, an opportunity was provided for the System to get away from what could become dogma.

Mr. Johns noted that in this case the Secretary of the Treasury had said that he neither wanted nor solicited help and that he was only thinking of the System protecting itself against the charge of being doctrinaire.

Mr. Thomas commented that he felt that it might hurt the Treasury issue for the System to hold some of the longer-term securities more than it would help.

Mr. Balderston said that in talking with the Secretary of the Treasury, on an earlier occasion than the one previously mentioned, he had advanced the hope that the interest rate fixed by the Treasury would be rich enough to attract buyers so that the Federal Reserve would not end up by owning the entire issue. The point of discussion at that time was the question of a rate of  $4\frac{3}{4}$  per cent or  $1\frac{1}{8}$  per cent less. Mr. Balderston said he expressed the hope that the offering would be so priced as not

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to fail in the market, thereby leaving the System with the entire issue. In view of the point just made by Mr. Thomas, Mr. Balderston asked Mr. Rouse whether there was any indication from the market as to whether non-Federal Reserve holdings of the one-year security would be substantial.

Mr. Rouse replied that he thought it was generally believed that corporations would go more for the one-year certificate than the four-year note. There would be some evidence in the attrition of expectations as to rates. On the whole, however, he felt that the System would have ample company in the one-year category.

Mr. Balderston said that if this were not the expectation he would vote to take some of the four-year notes for the reason Mr. Thomas had advanced.

Thereupon, upon motion duly made and seconded, it was voted that all of the \$5 billion 3-3/8 per cent certificates of indebtedness maturing on November 15, 1959, and held in the System Open Market Account would be exchanged for the 4-3/4 per cent certificate maturing November 15, 1960. On this motion Messrs. Hayes, Erickson, Shepardson, and Szymczak voted "no" for the reasons they had stated.

It was agreed that the next meeting of the Federal Open Market Committee would be held at 10:00 a.m. on Tuesday, November 24, 1959.

In connection with the date fixed for the next meeting, Mr. Johns, speaking as Chairman of the Conference of Presidents of the

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Federal Reserve Banks, noted that a committee consisting of Governor Robertson, representing the Board of Governors, and the members of the Committee on Fiscal Agency Operations, representing the Presidents' Conference, had been working on problems relating to the verification and destruction of United States currency and that a joint meeting of the Board and the Presidents had been suggested in order to consider the recommendations that would soon be made available by the special committee. Mr. Johns inquired whether it would be agreeable to hold this joint meeting following the meeting of the Federal Open Market Committee on November 24, and it was decided that the joint meeting would be held at such time.

Mr. Johns also referred to the fact that the Vice Chairman of the Board of Governors had referred to the Presidents' Conference for comment a letter addressed to him under date of October 30, 1959, by the Under Secretary of the Treasury with respect to proposed Federal Reserve Bank participation in the United States Savings Bonds program during 1960. Mr. Johns raised the question whether the Presidents should meet on this matter today or following the meeting of the Federal Open Market Committee on November 24.

After discussion it was agreed to follow the latter procedure if it developed that this would not involve too long a delay in replying to the Treasury.

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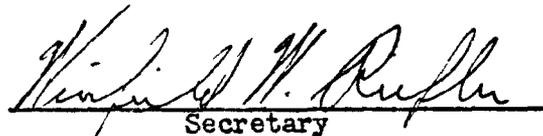
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Secretary's Note: Subsequent to this meeting, it was decided that the Presidents would meet later today on the questions raised by the Under Secretary's letter.

Mr. Johns then noted that if the usual schedule were observed, a meeting of the Federal Open Market Committee would be held December 15, 1959. He inquired whether it would be agreeable to schedule a meeting of the Presidents' Conference on December 14 and 15, and possibly on December 16 depending on the agenda that developed.

There being no objection, Mr. Johns stated that the Secretary of the Conference would be instructed to make plans on the basis of a meeting of the Presidents' Conference on the dates mentioned.

The meeting then adjourned.

  
Secretary