

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, December 13, 1960, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Hayes, Vice Chairman  
Mr. Balderston  
Mr. Bopp  
Mr. Bryan  
Mr. Fulton  
Mr. King  
Mr. Leedy  
Mr. Mills  
Mr. Robertson  
Mr. Shepardson  
Mr. Szymczak

Messrs. Leach, Allen, Irons, and Mangels, Alternate Members of the Federal Open Market Committee

Messrs. Erickson and Johns, Presidents of the Federal Reserve Banks of Boston and St. Louis, respectively

Mr. Young, Secretary  
Mr. Sherman, Assistant Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Hackley, General Counsel  
Mr. Thomas, Economist  
Messrs. Brandt, Hostetler, Noyes, Roosa, and Tow, Associate Economists  
Mr. Rouse, Manager, System Open Market Account

Mr. Molony, Assistant to the Board of Governors  
Messrs. Garfield and Koch, Advisers, Division of Research and Statistics, Board of Governors

Messrs. Brill and Williams, Associate Advisers, Division of Research and Statistics, Board of Governors

Mr. Knipe, Consultant to the Chairman, Board of Governors

Mr. Keir, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors

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Messrs. Ratchford, Mitchell, Jones, and  
Coldwell, Vice Presidents of the Federal  
Reserve Banks of Richmond, Chicago,  
St. Louis, and Dallas, respectively  
Mr. Holmes, Manager, Securities Department,  
Federal Reserve Bank of New York  
Mr. Parsons, Director of Research, Federal  
Reserve Bank of Minneapolis

Messrs. Young, Noyes, Garfield, Koch, Williams, and Brill participated in a visual-auditory presentation to the Committee on the subject of economic growth.<sup>1/</sup> Copies of the text and accompanying charts have been placed in the files of the Committee and have been sent to the Committee members and other Reserve Bank Presidents.

Before this meeting there had been distributed to the members of the Committee a report on open market operations covering the period November 22 through December 7, 1960, which report also contained a review of the 13-week period since September 7, 1960. There had also been distributed copies of a supplementary report covering the period December 8 through December 12, 1960, and of a memorandum from the Securities Department of the New York Reserve Bank commenting on the views that Mr. Robertson had expressed at the Committee meeting on November 22, 1960. Copies of these reports have been placed in the files of the Committee.

In supplementation of the written reports, Mr. Rouse commented as follows:

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<sup>1/</sup> Messrs. Garfield, Williams, and Brill withdrew following the presentation.

In conducting open market operations since the last meeting special attention was given to the impact of the changes in Regulation D effective November 24 and December 1. As was to be expected, the free reserve statistic increased sharply without being immediately or completely reflected in the feel of the money market. However, the fact that the money market subsequently remained generally easy, both in New York and elsewhere, suggests that country banks have been making better use of these new reserves than in previous instances when they acquired new reserves. On the other hand, it is discouraging to note that nonborrowed and required reserves have not been substantially expanded as a result of the ready availability of reserves. This is partly due to float but more significantly to the slow rate of creation of new bank credit.

Actual operations during the period were quite limited and were aimed at mopping up a modest part of the surplus reserves to forestall the development of sloppy money conditions. While short-term rates have fluctuated, they have remained within a reasonably satisfactory range. In one instance, on Friday, December 2, there were clear signs that excessive ease was forcing lower short-term rates and the System sold a moderate amount of bills and other short-term issues. It is worth noting that in this instance the market was quite ready to make bids for certificates, notes, and bonds, as well as for bills. On last Friday a somewhat similar situation developed, posing the problem of having to sell short-term securities. However, as it turned out the only thing necessary was the avoidance of putting a foreign buy order in the market, and market rates subsequently moved back up.

It is quite possible in my opinion for the System to sell as well as to buy short issues other than bills in worthwhile size under most conditions. We realize that we cannot always move them in as large blocks as bills and there is no doubt that the Treasury bill will remain the principal security for System use. However, we have been told by a number of the dealers that we should have no real problems in dealing both ways in other short-term securities. Incidentally, over the past week or so we have had a number of contacts with the Ford Motor Company, and their money man volunteered that they find no difficulty in trading issues up to two-year maturity in some size.

While the lowering of the British bank rate on Thursday, December 8, has generally been regarded as helpful to the U. S.

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balance-of-payments situation, the spread between the British and U. S. bill rates, on a covered basis, has not yet narrowed as much as might be hoped because the discount on forward sterling has narrowed. Yesterday, the yield in favor of British bills was about 1.15 per cent which, if anything, is more than it has been.

Last week the International Monetary Fund sold \$300 million gold to the U. S. Treasury and has given us instructions to invest the dollar proceeds in U. S. Government securities maturing in up to one year. We expect that this can be accomplished by the end of this year with the minimum adverse reserve effects and perhaps it will afford an opportunity for the Account to dispose of some certificates.

This sale of gold to the Treasury obscured for one week the continued outflow of gold to a number of foreign accounts. The outflow for the current week to date aggregates over \$204 million to several accounts, including \$150 million to the British representing utilization of a portion of the proceeds of the sale of sterling to the Ford Motor Company. The balance was invested in U. S. Government securities.

I should also like to report that in yesterday's auction the Treasury awarded us only 57 per cent of our bid for \$25 million six-month Treasury bills. As a result \$10,750,000 of System holdings of December 15 bills are scheduled to mature this coming Thursday.

Thereupon, upon motion duly made and seconded, the open market operations during the period November 22 through December 12, 1960, were approved, ratified, and confirmed.

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

There is nothing in the recent business news to suggest a near-term reversal of the slow downward drift, but at the same time there is no evidence of a developing cumulative decline. While inventory adjustments continue to exert a negative influence, it is hopeful for the longer run that some progress is being made in getting inventories under control in relation to sales. Business spending on plant and equipment is apparently now declining a little more

rapidly than had been expected. Although a number of surveys show considerable hope of an upturn by next summer, the current level of profits and of excess capacity throws some doubt on these expectations. Residential construction seems to be making little progress. On the other hand, government and export demand remain favorable, and in the key area of consumer spending the October-November record has been mildly encouraging. But undoubtedly the overriding fact in the current business situation is the high and rising level of unemployment and unused plant capacity. Although the current sag in business has been milder than any other postwar contraction, there is a possibility that the economy's upward "bounce" may also be less now that so many war-created demands have been filled, and with inflationary psychology so greatly diminished.

As for bank credit, it may be of interest to note that the trend of total bank loans in November and since midyear has been somewhat stronger than in 1957. Monthly changes in bank holdings of securities were distorted by the October bill financing, but since midyear both investments and total bank credit have risen much more sharply than in 1957, with an especially rapid rise at New York banks. The tendency this fall for money pressures to be concentrated at New York banks is not surprising, since loans and investments at these banks have risen by about 5 per cent from midyear through October, with deposits up only 2 per cent; whereas outside of New York each of these items has risen about 3-1/2 per cent. The same contrast is shown in the recent changes in bank liquidity measures. Loan-deposit ratios have continued their slow decline outside of New York, but in New York there has been little net change since midyear. The current performance of the money supply has been disappointing. Moreover, the outlook in this respect is only moderately hopeful in view of the likelihood that Treasury balances will stay high until next year and that there will be no Treasury cash financing until next spring. Incidentally, however, it now looks as if there would be no cash surplus in the fiscal year, so that the April cash financing might be substantially larger than had been expected a few months ago.

In the last week we have seen a pronounced improvement in the atmosphere of the bond market, with the successful completion of several corporate offerings which had been initially "sticky." It may be questioned, however, whether the long-term interest rates, which have risen appreciably since the summer, are consistent with the dubious state of the economy. In this

connection, some concern has been expressed over the sluggish behavior of mortgage rates, which have dropped a good deal less than in earlier recession periods.

The international financial situation shows signs of temporary betterment, with a possibility that the short-term capital outflow may have passed its peak. However, the situation remains exceedingly delicate, with a continuing threat of loss of confidence abroad in this country's ability to handle our affairs soundly and to avoid such highly undesirable measures as controls over capital exports. Among other things, we must, I think, continue to pay very close attention to the comparative levels of short-term interest rates in this country and abroad. The latest reduction in the British bank rate from 5-1/2 per cent to 5 per cent indicates that abroad there is increasing recognition of the close interdependence of the various national money and capital markets.

It seems to me clear that the condition of business warrants our maintaining our policy of ease, but perhaps with probings toward greater ease than has prevailed, on the average, in recent weeks. Our aim should be to encourage an active search by the banks for loan and investment outlets. While I would de-emphasize the reserve figures, as we have so often agreed is desirable, I would not be at all concerned if, as a result of our actions, free reserves should fluctuate around the \$750 million level. As in the past, I would hope that the Manager would be guided mainly by the feel of the market and by the action of short-term rates, especially the rate on three-month Treasury bills. No major open market operation seems likely to be needed in the next few weeks, and seasonal factors should tend to exert pressure on short-term interest rates. After the turn of the year, however, the problem may become more difficult, despite the prospective absorption of reserves by the System, in view of the tendency at that season for bill rates to decline.

This is no time, in my judgment, to consider a lower discount rate, especially in view of the risk of nullifying the favorable psychological effects of the recent rate reductions by various European central banks. The directive seems satisfactory in its present form.

In view of possible actions, especially in the fiscal area, to cope with the domestic business situation, I am wondering if it is not incumbent on the System to demonstrate its willingness to explore all reasonable possibilities at its disposal to encourage domestic expansion without taking undue risks on the international front. I have an uneasy feeling that long-term

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rates are somewhat higher than they should be to be as helpful as possible in present economic circumstances, although I can't prove this or set any quantitative measure on it. Also, I have some fear that with bank liquidity still rather low, the banks may not be seeking expansion of their lending and investing as actively as we would wish.

Faced with this kind of problem, together with the even more serious problem of avoiding substantially lower bill rates, we may be approaching a time when a departure from our usual policy of confining open market operations to short-term securities may be justified. It might turn out to be desirable to place reserves in the market by means of any maturity which seemed to be currently in supply--and even the possibility of useful swaps of shorts against longs should not be overlooked. Probably we need not face up to these problems today; I am not sure that I would advocate operations in long-term securities even during the early months of next year. But I hope the members of the Committee will be considering these questions over the coming weeks with an open mind; for if ever there was a time when we should demonstrate our flexibility, and our willingness to explore all alternatives, that time is the present.

Mr. Johns said he continued to believe that the directive to the Federal Reserve Bank of New York was correct in stating that it should be the goal of the Committee to encourage monetary expansion for the purpose of fostering sustainable growth in economic activity and employment while taking into consideration current international developments. Although he claimed no particular competence as a business forecaster, he had a rather uncomfortable feeling that the current situation, whatever it might be called, was something more than a mere inventory adjustment and that there might be more fundamental causes involved. The behavior of final demand was far from encouraging, especially if sales of goods were separated from sales of services, and it might be that the inventory adjustment which had been going on, and probably was continuing, was not

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the only cause of such behavior of final demand. He could only express the hope that when the history of this period was written it would not be the conclusion of the historians that the almost unprecedented contraction of the money supply which occurred from mid-1959 to mid-1960 had put to too severe a test the question of the relationship between the money supply and economic activity. He shared with Mr. Hayes a feeling of disappointment that the System had not obtained, at least in the most recent period, the expansion of bank credit for which the directive called. It seemed to be indicated from the weekly reporting bank figures that commercial bank credit declined slightly in November, that the banks sold securities on balance, and that loans increased somewhat less than would be normal at this time of the year. It also appeared that from the last half of October to the last half of November the seasonally adjusted money supply declined on a daily average basis. It further appeared that the velocity of money had been declining.

In these circumstances, Mr. Johns said, he would recommend that it be the aim of the Committee, in order to carry out the directive, to keep the member banks supplied with reserves. At some point, he felt that this would begin to show up in an expansion of bank credit. To illustrate, Mr. Johns related a recent conversation with a banker in the southernmost part of the Eighth District who expounded the view, which he claimed was shared by many other bankers, that the banks were uncomfortably illiquid. Their loan-deposit ratios were higher than they would like,



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so much so that the banker expressed doubt whether his bank and others similarly situated were in a position to expand their loans if they had the applications, although they would take care of the credit needs of their communities. The banker went on to say that it would not do any good to furnish more reserves because the banks could not use them; they did not have the loan demand and their loan-deposit ratios were already too high. Effective November 24, the country banks in that area obtained quite a lot of additional reserves through the release of vault cash, and these reserves had not found their way into the money markets, at least with any degree of rapidity. The country banks requested some of the cotton paper held by the bank with whose official Mr. Johns was conversing and although this bank was reluctant to give them the cotton paper, it did so in view of correspondent bank relationships. This tended to relieve somewhat the bank's uncomfortable feeling of illiquidity, and the banker indicated that if his institution should continue to be liberally supplied with reserves it would make loans if it had acceptable applications. If not, the bank would buy Government securities.

Mr. Johns commented that this conversation tended to point up the course that he would like to see the System follow; that is, to keep the commercial banks supplied with reserves until their feeling of illiquidity had been repaired. If the System then continued to keep reserves in supply, he thought that the expansion of bank credit which the directive called for would occur.

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Mr. Bryan stated that the Atlanta Reserve Bank had been reviewing rather carefully the performance of Sixth District statistics, which in previous postwar recessions had generally shown less decline than the national figures and in periods of expansion had moved upward more. In this recession, however, most of the figures showed a performance less favorable than the national figures. Generally speaking, the District figures had gone down more than the national average. The State of Florida, which made the District figures look so good in most of the postwar periods, was not doing so this time, and some industries such as lumber and textiles that are important in the District were showing poor figures. Moreover, it appeared that the District was being hurt rather badly, and might be hurt more on a long-term basis, by disturbances.

Turning to the national situation, Mr. Bryan said that there appeared to be a slow, mild deterioration. Because of the slowness of the deterioration, it might be hoped that the recession would be shallow and short-lived. However, that remained a hope and not something that could be proved. Accordingly, as far as monetary policy was concerned, he felt that the System had little choice except to continue the policy, expressed in the directive, of supplying reserves for the purpose of attempting to bring about an expansion of the money supply. For a considerable part of the year the System had pursued a policy that had achieved a slow expansion in the reserve figures. Thus far this month,

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however, those figures were slightly less, on a daily average basis, than in December 1959. In the current month the System was confronted with important seasonal factors of about \$350 million from November. Therefore, to state a target in terms of total reserves, he hoped that the System would fully take care of the seasonal factor of \$350 million and in addition supply some amount of reserves as a contracyclical influence. Whether that should be \$100 or \$200 million, he did not know, but he would think of something in that magnitude during the month of December. Accordingly, he believed that the System ought to add to total reserves in December, on a daily average basis, by something like \$450 to \$550 million.

With reference to the comment of Mr. Hayes concerning the seasonal factor in short-term rates after the turn of the year, Mr. Bryan said he was rather fearful that if the Committee were to hold a preconceived notion of what the short-term rate ought to be, it could easily get into trouble. He shared with a number of other members of the Committee the feeling that it would not be desirable to drive short-term rates to a greater disparity with competitive short-term rates abroad. At the same time, if it became necessary to make a choice, he believed the System must concern itself primarily with the domestic economic situation and not the country's international position. As he had noted many times at Committee meetings, there are some things monetary policy cannot do, and he thought

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it must be recognized, with regard to the international situation, that this is not a matter that fundamentally and basically responds to monetary policy. Instead, it arises from causes separate and distinct from monetary policy and can only be cured by actions outside the jurisdiction of the Federal Reserve. If what was involved was merely a short-term flow of capital in response to interest-rate differentials, the United States would be in no difficulty. However, more was involved in the problem and the Federal Reserve should not be expected to cure a problem that it did not create.

Mr. Bopp reported that business in the Third District continued to deteriorate, as reflected in a number of statistics. New and continued unemployment claims were rising and were now as high as at the equivalent point in 1958. The proportion of the labor force unemployed increased in October and remained higher than the national figure. Electric power consumption declined from September to October, and construction awards declined in both September and October while rising nationally. For the first ten months of 1960, construction awards in the District were down 11 per cent, while nationally the decrease was 3 per cent. In the latest four weeks, department store sales were 7 per cent below a year ago. Automobile registrations provided about the only bright spot, rising in October to 4 per cent over last year. The banking situation remained relatively unchanged; from time to time there were still some evidences of pressure on reserves of the larger banks.

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Mr. Bopp said that he would not recommend a change in the discount rate or the directive at this time. However, like others who had spoken, he believed that somewhat greater ease would be appropriate in view of the domestic situation, which he felt was becoming increasingly important relative to the international situation.

Mr. Fulton said that except for good automobile sales, indicators in the Fourth District were all down. The situation was not only sluggish but deteriorating. The steel mills were moving along at an even slow pace, with no significant improvement anticipated until the latter part of next year. The mills were well supplied with iron ore, and one company recently announced the complete closing of a high-cost mine in upper Michigan. On the other hand, low-cost properties were being developed in Canada and locations abroad. In the aluminum industry there was a gradual downward trend. The export market had been disappointing, and the industry was faced with a price problem in world markets. The volume of operations in the paper industry was running only 1.5 per cent above 1959, compared with an annual increase of 4 to 5 per cent over a number of recent years. The packaging part of the industry's operations was off, with orders down due to the inventories of customers already in packages, and no immediate uptrend was foreseen. A Reserve Bank director representing a company with considerable distribution throughout the United States indicated recently that orders from the south, southwest, and west coast were picking up, but that eastern and midwestern orders

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were on a low level. While auto production was now high, expectations for the first quarter of next year were that production would fall off, with a consequent effect on the already low rate of steel production. Department store sales had not held up well recently, although for the year to date sales were running one per cent above a year ago. Unemployment was now higher as a percentage of the labor force and in actual numbers. Several cities had been added to the list of those having a substantial labor surplus, principally in the steel and metal-working areas.

Mr. Fulton said there seemed to be a widespread belief among businessmen and bankers that there would be little change in the business situation until after the middle of next year. Bankers reported that there was beginning to be quite a bit of competition for mortgages now that repayments were running in excess of new mortgages, particularly at savings and loan associations. Due to substantial repayments, the associations had been forced to search for new mortgages to keep up their portfolios. This development suggested the likelihood of less stability in the mortgage rate and the possibility that long-term rates generally would begin to be less settled.

As to policy, Mr. Fulton expressed the view that the degree of ease currently being maintained was quite appropriate and said he concurred in the statements that had been made relative to the short-term rate. He did not feel that the System should charge itself with

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maintaining a level of short-term rates; instead, he would prefer to seek a level that would encourage investment in longer-term securities. If the funds now going abroad were actually short-term funds, they would come back, and whatever temporary outflow occurred was not going to embarrass this country over the longer run. For these reasons, he would not concentrate on maintaining a level of short-term rates after the turn of the year.

Mr. Fulton concluded by saying that he thought the discount rate was appropriate and that no change in the directive was needed at this time.

Mr. King recalled that several meetings ago a member of the staff said, in discussing the economic situation and the business outlook, that perhaps as never before the consumer held the key to the future trend of the economy. The events of the past several weeks had borne out the wisdom of that observation, Mr. King suggested. Continuing, Mr. King said that he was almost persuaded by the statements that had been made to the effect that the domestic, as contrasted with the international, situation was the most alarming factor at the present time. He was aware that bankers had a feeling of insecurity, but the consumer also had manifested this feeling in his decisions to moderate purchases. Mr. King did not believe that undue monetary ease at the present time would cause the consumer suddenly to rush out and buy goods. Instead, that decision was likely to occur only when the population as a whole had reached the

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point where people believed they had improved themselves to some extent in their personal finances. This might develop within a month or two or it might take a somewhat longer time, but in any event he was inclined to feel that this was the turning point that would occur some day. As he had said, he was almost persuaded by the appeal with respect to the domestic economic situation, but at the present time he hoped that the bill rate could stay in the vicinity of 2 to 2.20 per cent. It must be recognized that shortly after the turn of the year seasonal factors would exert a downward effect on the bill rate, and too precipitate a move at this time might drive the bill rate to an unduly low level. He agreed with the view that it would be desirable if long-term rates could level off or drop, but he did not believe that undue ease would cause the consumer to make the decisions that must be made before the economy again would move ahead.

Mr. King said that he would not favor a change in the discount rate at this time. He anticipated that open market operations would be so conducted that free reserves would fluctuate rather widely, possibly in the range from \$600 million to \$1 billion. However, he hoped that it would be possible to maintain the bill rate in the area from 2 to 2.20 per cent.

Mr. Shepardson commented that there had been some slowing down of business activity, along with some increase in unemployment, and that both developments were matters of concern. On the other hand, it seemed



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to him that the country was going through some wholesome and salutary adjustments, painful to be sure, but adjustments that were needed at some time. The country appeared to be getting in a little better position competitively, and that was needed. Some of the price movements and some of the indications of a little more restraint in wage negotiations were sound and constructive developments.

Mr. Shepardson went on to say that he did not think the Federal Reserve could take care of the international situation entirely; other factors were of more significance. However, he did not believe that the Federal Reserve would aid the situation by flooding the carburetor. The System should maintain a position of ease, as it had, but he did not feel that providing any large amount of additional reserves at this time would have a wholesome effect. Mr. Johns had related a conversation with a banker who said that his bank did not have any large demand for loans, and to him (Mr. Shepardson) it would not be constructive to provide a flood of money when there was not the demand for credit. Accordingly, he would favor holding to the position that the Committee had attempted to maintain for the past two or three periods. He would keep an eye on the short-term rate, but not in the sense that that would be the controlling factor. He would provide needed reserves but not attempt to flood the market, and he would not change the directive at this time.

Mr. Robertson referred to the remarks he had made at the November 22 Committee meeting concerning the manner in which the Account was

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handled during the preceding three-week period and noted that, in accordance with the procedure agreed upon, there had been distributed prior to this meeting a memorandum from the Securities Department of the New York Reserve Bank commenting on the views that he (Mr. Robertson) had expressed. As he read the memorandum, he felt the faulty logic and strained interpretations were apparent to anyone who wished to see them, but he did not wish to labor the point, other than to assert that he thought the comments he had made at the preceding meeting may have been a contributing factor in leading to the better administration of the Account since that meeting.

With respect to policy for the forthcoming period, Mr. Robertson expressed himself as very much in agreement with the comments that had been made today to the effect that the Committee ought to aim at an easier position. In short, he would attempt to do more to get the economy switched around toward an upward movement, for over the long pull this was the Federal Reserve's real function and he had some doubt as to whether the System had functioned in that respect as well as it could have. To pinpoint a move toward greater ease such as he recommended, he would say that in his opinion free reserves should be somewhere in the neighborhood of \$750 million. He would expect that this might permit the bill rate to move downward toward 2 per cent and that it would keep the Federal funds rate low. He would like to have the actions of the System construed as meaning that the System really wanted ease.

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If he were a member of the board of directors of a Federal Reserve Bank, Mr. Robertson said, he would push right now for a reduction of the discount rate by one-quarter of a percentage point. In his opinion, this would not indicate panic but rather a move designed to encourage the commercial banks to perform their function of searching for loans in order to expand the money supply to the extent possible and try to get the economy moving upward. As he saw it, such a move would not disturb confidence in the dollar; instead, it probably would have the reverse effect. The directive seemed to him proper, and he thought the Committee ought to move further in the direction indicated by it.

Mr. Mills stated that in his comments he proposed to discuss problems having to do with the money supply and satellite considerations regarding developments in the area of bank credit that were disturbing to him and caused him to doubt whether heavy injections of additional reserves into the commercial banking system would, as they had in the past, have the effect of jolting the economy and the bank credit statistics off dead center. Mr. Mills then read the following statement:

A stagnant money supply in the face of energetic Federal Reserve System actions to supply reserves and promote the expansion of commercial bank credit demands a new look into the roots of monetary policy formulation. Presently the System has essayed the trick riding stunt of trying to have one foot on an effort to foster business expansion through low interest rates and ready availability of credit and the other foot on an effort to maintain an interest rate structure high enough to prevent the transfer of funds abroad for investment at higher interest yields. The last time a somewhat similar Roman riding

trick was tried in the 1920's the horses pulled apart and an effort to maintain an interest rate high enough to prevent inflation, but not so high as to induce an inflow of gold from Great Britain, failed and the forces of inflation took over.

Current financial conditions are not comparable to the 1920's, but the lesson of the earlier experience suggests that the Federal Reserve System should no longer attempt an ambivalent monetary and credit policy. The policy called for is one that will assure ready availability of bank credit at interest rate levels high enough to retain volatile investment funds in the United States and possibly attract a return flow from abroad. The adoption of this policy requires subordination of the attempt to promote the expansion of bank credit by the forced feeding of new reserves into the commercial banking system, which policy, in any event, is proving and has been proven ineffective in achieving its intended purposes.

The reason that an aggressive Federal Reserve System policy of active ease is not causing the desired expansion of bank credit and the money supply can be laid to the fact of a sluggish and waning demand for bank credit accountable to the dominance of recessionary business influences. The money supply not only represents the pool of previous extensions of bank credit, but is also a measure of the magnitude of total spending. Inasmuch as the demand for bank credit has fallen, the spending that originates from bank lending and investing has also fallen, and may fall further if total bank loans should contract. Under these circumstances, and considering the dampening effect of recessionary influences on consumer and entrepreneur propensities to spend and invest, a Federal Reserve System policy of supplying new reserves in abundance does not promote bank credit expansion, but merely forces the level of short-term interest rates down to an undesirably and unrealistically low level.

Whereas the forced injection of reserves into the commercial banking system is not inducing an expansion of bank loans, it might be expected to promote increased investments in U. S. Government securities and thus to support an increase in the money supply. It is true that commercial bank holdings of short-term U. S. Government securities have risen substantially, but this has been largely because of massive acquisitions of U. S. Treasury tax anticipation bills through the medium of their Tax and Loan Accounts. These purchases have served to increase outstanding bank credit and to sustain the money supply, and illustrate the need of a forceful demand for credit in order to spark an expansion in the money supply. Other commercial bank purchases of U. S. Government securities have

not done so, inasmuch as they were financed through funds available from rising totals of time and savings deposits which, in turn, are a reflection of lesser spending attitudes and a drab business situation. Moreover, it does not follow that commercial bank purchases of U. S. Government securities otherwise financed will induce an expansion of bank credit because, where such purchases are made by commercial banks located outside of the money markets, they are transacted by transferring available cash to the U. S. Government securities dealers in the money markets and not by creating a new deposit on their own books which would tend to bolster the money supply. This sequence of events occurs regardless of the volume of reserves held by the "up-country" commercial banks, and its effect is only to heighten the demand for short-term U. S. Government securities and to drive their yields down without promoting an increase in bank deposits and the money supply. The opposite is, of course, true of central reserve city bank purchases of U. S. Government securities which do result in the creation of new deposits for the accounts of their U. S. Government securities dealer customers. However, the investment activities of the central reserve city banks are not alone enough to bolster the money supply at a time of a low demand for commercial bank credit.

What is evident seems to be that an easy monetary and credit policy is ineffective in inducing an expansion of bank credit at a time when the demand for credit and the propensity to spend is slack, and that an active demand for private and public credit is the economic ingredient essential to a successful pump-priming monetary and credit policy.

Under present conditions, an aggressive Federal Reserve System policy of supplying reserves merely fritters itself away in an attrition of short-term interest rates that increases the difficulty of trying to prevent a further outflow of funds from the United States. A suitable monetary and credit policy at this time would aim at making credit readily available, but at an interest cost compatible with the objective of making the short-term U. S. Government securities market attractive for the investment of both domestic and foreign funds. A level of positive free reserves on the low side of \$500 million should promote the proposed policy objective and without doing the kind of violence to the short-term interest rate structure such as has occurred in response to an over-generous injection of new reserves into the commercial banking system. At some time in the future, there will be a resurgence of demand for bank credit which will call into play the latent credit promotive forces that the Federal Reserve System controls. Until then, monetary policy may well be a neutral factor in the complex of fiscal and monetary policy considerations that in ordinary times serve the national economy in tandem.

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In conclusion Mr. Mills said that he would not recommend a reduction in the discount rate or a change in the directive at this time.

Mr. Leach reported that the downward drift in the economy of the Fifth District continued. With few exceptions employment, seasonally adjusted, had been declining slowly and man-hours in manufacturing industries had continued to drop. The textile industry, one of the first to cut back early in the fall as new orders dragged, continued to adjust output, and might schedule a full week's shutdown at Christmastime to check a slow growth in inventories. Furniture makers experienced a satisfactory level of orders immediately after their fall market, but this situation proved temporary and current orders were not sufficient to maintain backlogs. The nation's largest steel plant, the Bethlehem plant at Sparrows Point, Maryland, which had been maintaining production and employment at higher levels than the industry as a whole, recently cut its workweek and laid off a substantial number of employees. Coal production in the District continued to decline, and a new series of layoffs had recently been reported. The Ohio and Kanawha River valleys in West Virginia, with their busy chemical and other industrial plants, stood in sharp contrast to the depressed coal areas in other parts of the State. Retail trade reports in the District were quite varied, but there was apparently little hope that this year's Christmas business would equal last year's volume. A somewhat brighter spot in the District's economy was afforded by construction employment, which remained near its peak level and was supported by a continuing high level of contract awards for non-residential and public works and utility projects.

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Total loans of Fifth District weekly reporting banks had trended contraseasonally downward since mid-September, and investments had moved up at a pace unmatched in any recent year. Borrowings at the discount window the past few weeks averaged less than during the comparable periods of any of the past five years.

From the standpoint of policy, Mr. Leach said, the four weeks before the next Committee meeting seemed to fall into two distinct parts: the period between now and Christmas and that between Christmas and January 10. During the first period, he believed the Committee should see that reserves were readily available for seasonal purposes, while maintaining approximately the present degree of ease. For the second period, the problem presumably was to decide how quickly and to what extent the Committee wished the Desk to mop up surplus reserves created by the return flow of currency. It was his suggestion that operations be so shaped as to maintain substantially the ease achieved in recent weeks, with particular care taken to avoid a sloppy market with downward pressure on short-term rates.

Mr. Leach stated that he would not recommend a change in the discount rate at this time. It seemed doubtful that a reduction would result in any noticeable improvement in the domestic situation, and it almost certainly would aggravate the balance-of-payments problem. On the other hand, an increase would be out of the question in view of the current economic downturn. He would expect some decline in short-term rates after Christmas, but he thought the System had learned from experience that nothing was to be gained, and something was lost, by

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forcing short-term rates to extremely low levels through excessive ease, even in periods when there was no serious balance-of-payments problem.

Mr. Leedy said that there had been no significant developments in the Tenth District since the Committee meeting three weeks ago. As to policy, it seemed to him from the projections for the period between now and the next Committee meeting that a minimum of open market operations might be required. While he felt that the System should continue to follow a policy of ease, he had the feeling that, at this juncture in particular, nothing was going to be accomplished in the way of stimulating loans and nothing in the way of creating a demand on the part of borrowers by contributing to a sloppy position in reserves. As he saw it, the System had been doing the job that it should do in providing a large volume of reserves. However, use had not been made of those reserves in the expansion of loans and there was no reason to expect that anything different was going to happen in the period immediately ahead. This was due to the general situation of the economy at the present time, which involved a waiting period to see what might be ahead, and in such circumstances it did not appear to him that the mere piling up of reserves would accomplish real results as far as loan expansion was concerned. The System should take care, and was taking care, of seasonal requirements, and it wanted an easy position in reserves, but to push that ease to the point where the country's international position would be jeopardized did not seem to be the proper course. The domestic situation was something with which to be greatly concerned, especially so in the present period, but the



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System should be extremely watchful of the international situation. In the circumstances, he would keep a close eye on the bill rate, which had given a good account of itself in the period since the preceding Committee meeting. If the System could contribute to a continuation of that performance, he would favor doing so. It followed, of course, that he would not suggest any change in the discount rate, and he did not see any need for a change in the directive.

Mr. Allen stated that at the annual Business Outlook Conference held last week at the First National Bank of Chicago the ten businessmen panelists pretty well agreed that business activity in the first half of 1961 would not differ greatly from the last half of 1960. There was a general expectation, however, that business would improve during the second half of next year. As to developments in the Seventh District, additional layoffs and shorter workweeks had been announced recently in construction machinery, appliances, and television. The recently released classification of labor market areas indicated deterioration between September and November for Fort Wayne, Gary, South Bend, Des Moines, and Muskegon, and seven major District centers were not classified as having a substantial labor surplus. Department store sales, strong in October, slipped 5 per cent below last year in November and continued below a year ago in the week ended December 3.

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A bright spot was found in sales of automobiles, which were at a record high in both October and November. Many of the cars sold were 1960 models and about 30 per cent were compacts, so the trend in dollar sales was not as strong as in number of units. One result of the good sales was that production schedules were not being cut back as much as had seemed probable. The high inventories, however, indicated that if production in 1961 was to equal that of 1960, sales next year would have to be very good indeed.

On the subject of inventories, Mr. Allen recalled having mentioned before that the many more models being offered today was an important factor. The Fisher Body Division of General Motors was currently producing 113 body styles. Sales of the new compacts offered by Buick, Oldsmobile, and Pontiac were said to be quite satisfactory, and thus far 24 per cent had been cash sales; that is, no trade-in was involved. This meant that many of the compacts were being bought as second or third cars and represented new business. Thus, fears about high inventories were reduced.

Agricultural loans at member banks in cattle feeding areas increased sharply in November, Mr. Allen said. Purchases of feeder cattle were delayed this fall because of relatively unfavorable results from cattle feeding last year, hopes that prices of feeder cattle would decline, and prospects that favorable weather would make most of the corn eligible for price support loans. Although there was less high

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moisture corn than last year, there was enough to have the effect of deferring marketing of cattle and hogs, increasing the demand and the prices for feeder cattle, and probably laying the groundwork for stability in livestock prices in late winter and spring.

Borrowing at the discount window in the December 7 week averaged only \$5 million. The largest Chicago banks still showed a basic deficit position, but it was not large and coverage through the Federal funds market had been advantageous.

Mr. Allen said he would not favor changing the discount rate or the directive. He continued to feel that monetary policy had made its contribution toward greater economic activity on a sustainable basis, and he agreed with those, notably Mr. Shepardson, who would maintain about the current degree of ease but not add to it. To maintain the current degree of ease presupposed continuing to inject reserves in replacement of those lost through the gold outflow, which apparently was continuing. Most certainly, however, he would not go beyond that.

Mr. Mangels said that in the Twelfth District items were beginning to show up on both sides of the ledger. In southern California another major area had been classified as an area of substantial labor surplus, and in October unemployment stood at 6.6 per cent in California, 7 per cent in Oregon, and 8.2 per cent in Washington. The figures for the latter two States, however, each showed a decline from the preceding

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month, Oregon being down .3 per cent and Washington down .5 per cent. The over-all employment situation in the District was somewhat better than a year ago, employment being up about 3.2 per cent from October 1959. No major change in either the employment or the unemployment situation was foreseen for the next two or three months.

Continuing, Mr. Mangels commented that in November the steel rate in the District dropped to 48 per cent, against a national rate of 51 per cent. However, steel executives appeared to feel that the cutting of inventories was about over and that existing rates of consumption would support higher operating rates. In other words, if consumption should continue at about the same rate as in the recent past, there seemed to be a fairly good possibility that the rate of steel production would increase in the next few weeks or the next few months. Toward the end of November nine plywood mills in Oregon shut down for a period of a week, reducing industry output to 60 per cent of capacity as against 70 per cent in October. This had the effect of equalizing production and demand, so the situation was a little better than it had been. Total construction contracts in October were 2 per cent above September and were about equal to a year earlier. The improvement in residential construction was also about 2 per cent, although residential construction was down somewhat from the year-ago figure. Department store sales had been somewhat disappointing, and the cumulative figure from the first of the year was down one per cent

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from 1959. Some stores had released part of the extra help taken on for the Christmas season. Automobile sales were holding up fairly well. In October they were 13 per cent above the September figures, but sales leveled off somewhat in November.

Mr. Mangels went on to say that during the three weeks ended November 30 weekly reporting banks showed a reduction of \$220 million in loans to banks. Excluding that reduction, loans increased about \$55 million, of which approximately one half was in consumer loans. The banks also increased their holdings of Government securities by somewhat more than \$100 million. Total deposits were little changed, but demand deposits increased while time and savings deposits dropped, part of the decrease in savings deposits being the result of distribution of Christmas club accounts. Reporting member banks now showed an average loan-deposit ratio of 59.3 per cent, about 3.5 per cent below the ratio at the end of October and about 6 per cent below the June high. Savings and loan associations continued to accumulate funds, showing a 28 per cent increase over their share accounts a year ago, but the growth in mortgage holdings was 7 per cent under a year ago. The question of the maximum rate of interest on time and savings deposits was beginning to raise its head again with the end of the year approaching; there had been some inquiries as to whether any consideration was being given to a change in the 3 per cent maximum rate. Several banks had shifted to the crediting of interest on a daily basis, and some to a monthly

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computation basis. One of the banks in San Francisco that at midyear shifted to a daily basis had increased its savings accounts about 53 per cent in the intervening period. There had been practically no borrowing from the Reserve Bank during the period since the last Committee meeting, and purchases and sales of Federal funds about balanced out.

Mr. Mangels expressed agreement with those who had suggested that the System should supply reserves liberally between now and the end of the year. It was difficult, however, to find measurements to evaluate the effectiveness of System actions. The release of vault cash had made the free reserve figure less valuable as an indicator and the money supply figure may have lost some of its usefulness because of the increase in savings and time deposits and the conversion of money to forms of investment not included in the money supply. Many treasurers had sharpened their pencils to reduce demand balances and get them working wherever possible.

There had not been a great deal of change in short-term interest rates, but there had been a firming up of longer-term rates, and the Federal funds rate seemed to have lost some of its value as an indicator with the discount rate higher than market rates.

For whatever value it might be as a guide in the present circumstances, Mr. Mangels suggested keeping free reserves somewhere in the range from \$500 million and \$750 million, with considerable leeway given to the Manager of the Account to determine what operations were

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necessary on a day-to-day basis according to the feel of the market. He felt that the directive was satisfactory.

With reference to the discount rate, Mr. Mangels commented that under normal conditions the rate probably should be reduced in light of the other changes that had taken place in the monetary picture, including the actions of the System in freeing reserves. Because of the international situation, however, he did not feel that the discount rate should be changed.

Mr. Irons reported that there had been little over-all change in the Eleventh District and that there had been mixed developments. In the last month there had been some improvement in the petroleum industry. It appeared that the stock situation might improve and that production would move into the new year on a nine-day allowable basis instead of an eight-day basis. There had been some pickup in drilling activity. The industrial production index in Texas had remained relatively steady over the past few months. Department store sales during November were not as favorable as had been hoped, and for the year as a whole they were about 2 per cent under a year ago. The first week in December was not conducive to good sales due to rain and cold, and what would happen during the next two weeks remained to be seen. The position of consumers seemed to be strong as far as liquidity was concerned; time and savings accounts had been increasing substantially.

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The position of District banks appeared to be very easy, Mr. Irons said, and there had been virtually no borrowing from the Reserve Bank except on the part of two or three banks in western Texas. The demand for bank loans seemed fairly satisfactory. Loans had increased, with commercial and industrial loans up and some decline in interbank loans. Both demand and time deposits were up during the past three-week period, and District banks had been substantial sellers of Federal funds, with practically no purchases. No banks had indicated recently that their positions were tight from the standpoint of the loan-deposit ratio or the availability of funds.

Mr. Irons expressed himself as quite satisfied with the operation of the Account for the past three weeks. On an occasional day or so he had thought the situation was excessively easy, but those occasions reflected day-to-day changes in the market and on the whole he felt that the Account Management had operated very satisfactorily. Over the forthcoming period, he would like to see a continuation of the same degree of ease. He would not like to see additional ease forced on the market. While he did not have much faith in net free reserve figures, when they got into the range of \$500-\$600 million he felt that the System was getting into an aggressive provision of reserves. When reference was made to free reserves up to \$1 billion, that meant to him a supersaturation of the market, and he would not like to see that occur. He continued to feel that the international situation, as it related to and was



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reflected in short-term rates, was a serious problem and one that could not be ignored. At times he found himself more concerned by the international than the domestic situation in this rather mild recession, from which he was confident that the country would emerge without devastating consequences. In his opinion, the international situation and the short-term rate situation should not be given secondary importance, although he realized that the movement of short-term funds was not the fundamental cause of the problem. A long-range problem was involved in getting the balance of payments into a satisfactory position, but developments in the area of short-term rates and the movement of short-term funds and gold simply could not be ignored. These developments were an immediate consequence of a deep-seated deterioration that must be dealt with over a long period, but one should not lose sight of the immediate consequences.

In summary, Mr. Irons recommended trying to maintain the current degree of ease, adding that in his opinion the System had made reserves available liberally. He would like to see the bill rate stay in a range from 2-1/4 to 2-1/2 per cent, and he would not change the discount rate or the directive.

Mr. Erickson reported that the New England manufacturing index continued to show the unfavorable trend which developed three months ago and had proceeded at a quicker pace than nationally. However, electric power output continued to surpass last year's figures. In

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October, construction contracts were 11 per cent ahead of a year ago against a national increase of 6 per cent. For the first 10 months, the cumulative figure was 6 per cent behind 1959 against a drop nationally of 3 per cent, with a substantial reduction in public works and utility contracts. The employment situation was not good. Insured unemployment showed rapid increases, and another city had been added to those already classified as having a substantial labor surplus.

Department store sales lagged in November, although for the year to date they were still 2 per cent ahead of last year. For the 11 days after Thanksgiving, sales ran 5 per cent behind the comparable period in 1959. In 1959, sales also ran behind the previous year and then picked up in the remaining days before Christmas, with the result that the season as a whole showed an increase. However, it remained to be seen whether that pattern would again develop this year.

The discount window had been used very modestly, Mr. Erickson said. For a part of the period since the November 22 meeting District banks were sellers of Federal funds, and on a few days they were net purchasers. A couple of months ago a large bank in the District shifted to a basis of crediting interest on savings accounts on a day-to-day basis, much to the disgust of its competitors.

Mr. Erickson said that he would not favor a change in the discount rate or in the directive, and that in his opinion the Desk had done a good job over the past few weeks. He wished to associate himself with

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those who had spoken against excessive ease, feeling that probably this would not accomplish what it was hoped to accomplish and that it might complicate the problem of withdrawing surplus reserves from the market in January. He would favor instructing the Desk to the same effect as at the November 22 meeting; that is, to attempt to maintain the current degree of ease, with the hope that the bill rate would remain around 2-1/4 per cent and that the Federal funds rate would be under the discount rate.

Mr. Szymczak said that he would favor no change in existing policy. He expressed the opinion that the Management of the Account had done an excellent job, to which he added that under present circumstances it was difficult to do a job in the market such as had been done. It was his view that the Desk should continue to operate primarily according to the feel of the market, and that the question whether free reserves went as high as \$750 million should depend on the tone of the market.

Mr. Balderston commented that Mr. Leach had put his finger on a perplexing problem. At least until December 21, or shortly thereafter, he (Mr. Balderston) felt that the present policy should be followed. In this connection, he noted that the Federal funds rate had been running between 1-1/2 per cent and 2 or 2-1/4 per cent for the past 10 days, which was an indication of the effect of System

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policy. However, what might happen to the bill rate after Christmas presented an entirely different problem, to which he did not know the answer. He had a feeling that domestic conditions were worsening; unemployment seemed certain to rise even more. Since the commercial banks were still in an illiquid position, he felt that the System should not cease supplying reserves.

Summarizing, Mr. Balderston said it was his feeling that neither the directive nor the discount rate should be changed, and that the System ought to continue pressing reserves on the banks at about the current rate. He realized, however, that this probably would push the bill rate down through the floor after the turn of the year.

Chairman Martin noted that at recent Committee meetings he had been tending to begin his comments by saying that he thought the System had been doing about right. He continued to feel that way. However, he also felt that everyone should be thinking about the longer-range position in terms of the relationship between the domestic economy and the international economy. While he believed that the System had acted wisely, there was quite a body of opinion--much more substantial than perhaps was generally realized--to the effect that the System had played fast and loose with the credit of the United States in pursuing as easy a monetary policy as it had been pursuing. There had been quite a bit of talk to such effect in Europe and, while

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it perhaps was not too important, one must not disregard it entirely as a factor in the present situation. As he had indicated, he felt that the System had eased at the right time and that it had moved progressively in the right way. He also believed that one should think of the domestic economy first. However, as Mr. Mills had pointed out today, the System was dealing with an entirely new set of circumstances, not the same circumstances that prevailed in the 1953-54 and 1957-58 recession periods. No longer was the world price mechanism outside the area of immediate relevance. No longer, either, were there important shortages of anything in the United States; the country must depend on research for the development of new products.

The Chairman went on to say that whether one liked it or not, it must be recognized that the United States was on a modified gold standard. It had been interesting to read in the past few weeks the various comments, of which the number was increasing, to the effect that the relationship of the dollar to gold was obsolete or antiquated, that it had no real importance, and that there would be no real effect if the country lost all of its gold. Such comments, he noted, always are heard when people find that the rules of the game are a little hard to observe. He added that domestic convertibility would be ideal if one could have the conditions that would permit it. However, in a world torn by strife, as at present, domestic convertibility would be intolerable.

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Continuing, Chairman Martin expressed the view that the System should not force monetary policy at a time like the present. It had forced monetary policy in 1957-58, and he thought that was the last time, perhaps, in this particular cycle that monetary policy could be forced. The present situation seemed to him to be summed up in the comment of Mr. Johns regarding his conversation with the banker: the demand for credit was not there. To force banks to go out and seek loans at a time when the price mechanism was working against businesses would only cause people to get into hopeless positions and lose money. The System would not want to encourage people to borrow simply because banks might make money on the loans, for the borrowers probably would get into trouble within a short time in view of the declining price level and declining profit margins.

Chairman Martin then referred further to the outflow of gold and possible developments before the outflow came to an end. Against that background, he suggested that the System would not want to compromise itself by forcing money into the market when it was the competitive pricing of goods and services that was really the problem of the world at the moment. In Europe, he noted, there was a slight slowing down of the boom, but he did not believe it was going to be very serious. He went on to say that if it were not for the fact that the dollar, on current account, was stronger than the pound, on current account, and

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the fact that they are the two world reserve currencies, he might be in favor of tightening up a little. On balance, however, in view of the shakiness of the domestic economy, he felt that the System should give as much aid as it could through the poultice of easy money without, on the other hand, trying to force the commercial banks. In many instances, banks had gotten into high loan-deposit ratios through imprudence. Now that business was not as strong as it had been, bank directors were saying that they wished their institutions did not have such a high loan-deposit ratio and that they would like to have this corrected before the banks became aggressive. Furthermore, the banks did not have the loan demand. In summary, the present situation involved an entirely new set of circumstances.

What he was trying to point out, the Chairman said, was that monetary policy has limitations both as a restraining factor and a stimulating factor. In his opinion the System had played its part well in the current recession by providing the maximum stimulation it could to an economy that was bound to decline when it reached this particular stage. If he were thinking of measures to stimulate the economy further, he would think more in terms of adjustments in fiscal policy than in monetary policy. As Mr. Mills had said, the proof of the pudding is in the eating. The System had been energetically supplying reserves for some time. It had not made much of a dent in terms of the money supply,

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however, partly on account of the gold outflow.

Chairman Martin said he did not think that one could separate domestic and international economic problems at the moment, or that one could ignore the problem of the prices of world products. As he saw it, what the System had to do was to keep a reasonably even keel, and the System should not expect monetary policy to do more than it could. At this juncture, particularly, the System should be careful not to appear to be embarking on a cheap money policy just for the sake of cheap money. A lower discount rate at this point would make the European central banks that were lowering their own rates look silly, for it would appear as though the Federal Reserve was trying to be competitive. Similarly, if the Federal Reserve got the reputation of following a cheap money policy just for the sake of doing so, people abroad would be encouraged to think that the System was not concerned with the balance of payments or with the soundness of the dollar. This was something about which one should think carefully.

Chairman Martin then referred to the comments of Mr. Hayes regarding the possibility of System Account operations in long-term securities and stated that he felt it was proper for all members of the Committee to raise for consideration questions involving possible changes in the Committee's operating procedures. He hoped that everyone would consider such suggestions with an open mind. It might be that



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there was a need to look into the question of operations in long-term as well as short-term securities. However, as he had said several times before, the Committee should be very careful in its moves or it would get back to pegged interest rates before this was realized. Before the Committee started buying long-term bonds, it should consider whether it was going to establish a long-term rate or whether it was just going to acquire long-term bonds for the Account portfolio. In other words, any experimentation ought to be entered into very carefully. Personally, he had some questions about the adequacy of performance of the Government securities market, and those questions would be magnified by the extent to which the Committee went into longer-term securities. As he had indicated, the Committee should do this only for a specific purpose and in order to obtain a specific result. He was not sure in his own mind that the Committee would obtain such a result, and everyone should be very careful to be sure that he felt such a result would be achieved. While he (Chairman Martin) could go along with the argument for purchasing securities up to a maturity of one, two, or three years in certain circumstances, when it came to 20-year maturities the Committee would be dealing with an entirely different market.

Chairman Martin said that what it came down to today was that there was certainly no disposition at this meeting to favor a change

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in the policy directive or in the discount rate. Everyone recognized that the System must supply reserves to meet the seasonal needs for credit and to compensate for the outflow of gold that was occurring. The only question appeared to relate to whether the majority wanted to pursue a somewhat easier policy than the Committee had been pursuing or preferred to attempt to maintain about the present degree of ease. There appeared to be a difference of opinion on that point, and it might be advisable to take a poll.

Mr. Hayes inquired whether it was possible to separate the question raised by the Chairman from the question of the short-term rate, which he regarded as almost a crucial thing, to which Chairman Martin replied by suggesting that too much emphasis on the short-term rate would amount to making a pattern. The Committee was really dealing with the supply of reserves, and if the Committee was going to supply reserves he did not believe it could control the impact on the short-term rate.

Mr. Hayes suggested that a good many people felt that the short-term rate represented a danger signal that might help in determining how many reserves could safely be supplied.

Chairman Martin commented that he did not know how that could be put in terms of an instruction to the Desk. Personally, he would like to see the short-term rate as high as one could have it. However,

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the problem that the Committee must discuss was the degree of ease in terms of the reserves supplied to the market.

Mr. Johns commented at this point that when he spoke previously he did not have any intention of arguing for excessive ease or for creating a so-called "sloppy" condition in the market. His point had been simply that bank credit expansion can and does result from commercial bank investment. He certainly had no intention of arguing that the System drive banks into making imprudent loans if, indeed, that is likely. Instead, he would desire bank credit expansion to occur in moderation and prudent magnitudes. He would like to see some introduction of reserves in excess of seasonal needs and offset of gold outflow.

Chairman Martin replied that this was exactly how he had tried to state the question, and Mr. Johns said that he thought the Chairman had stated it well. He (Mr. Johns) had simply wanted to disclaim what might have been a misinterpretation of his earlier comments.

Mr. Bryan said he wanted to make the same kind of disclaimer. A number of his colleagues seemed to have been under the illusion that the Committee had been pursuing an aggressive easy money policy. Actually, the low point in total reserves of the banking system came in March, after many months of sharp decline. Since that time the System had added a little less than \$800 million to the total supply of reserves in a period when the economic situation was deteriorating,

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and he did not regard that as an aggressive easy money policy in any sense of the word. His stated objective was merely to give the banking system the usual seasonal requirement in December of about \$350 million of reserves, plus about \$100 million.

After further comments, Chairman Martin stated that the division of opinion seemed to be between continuing the present degree of ease and proceeding toward a moderately easier policy. He asked whether this was a fair way of putting the question, and there were no comments to the contrary. Mr. Johns stated that his point was that whatever ease had been achieved had not brought about what he felt was called for by the directive. In his opinion, therefore, something else should be tried. He would not change the directive because he thought it was appropriate.

The Chairman then called for comments on the question he had stated, and Mr. Hayes said that he found himself in a dilemma. While he would like to see slightly greater ease, he would not be willing to instruct the Desk to seek that ease without paying attention to short-term rates, which he felt constituted a limiting factor. If slightly greater ease could be achieved without doing too much violence to short-term rates, that would be fine, but he did not believe that the two matters could be separated.

Mr. Robertson inquired whether Mr. Hayes had a floor in mind on the bill rate, to which the latter replied that it was best not to be

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too precise since there was always the danger that a floor would become an objective. When reference was made previously to a rate of 2 per cent, he had thought of that rate as representing an outside limit. He would like to see the bill rate stay somewhere in its present general range.

Mr. Erickson said he would favor continuing the degree of ease that had been maintained, and Mr. Irons commented to the same effect, adding that he would not favor a further increase. Mr. Mangels recalled that he had mentioned a range of free reserves from \$500 to \$750 million. He pointed out that free reserves had averaged around \$500 million during November and almost \$700 million in the first week of December. He hoped that the bill rate would not fall too much below 2.15 per cent.

Mr. Allen stated that he would continue the present degree of ease, without increasing it, and Mr. Leedy said that he was satisfied with the degree of ease that prevailed. Mr. Leach said that he would favor maintaining approximately the same degree of ease. He added that the feel of the market involves a lot of things, including interest rates, but that he felt a little more attention might be paid to interest rates at the present time than was given to them before the balance-of-payments problem was in the picture.

Mr. Mills stated that he would move back moderately from the degree of ease of the past few weeks to a somewhat tighter position,

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while Mr. Robertson stated that he would favor moderately greater ease and that he would not be fearful if the bill rate went as low as 2 per cent. Mr. Shepardson said that he would recommend no greater ease and that he hoped that the bill rate would not vary significantly from its present level, following which Mr. King said that he would not favor greater ease.

Mr. Fulton indicated that he would like to see the bill rate between 2 per cent and where it now stood, which would suggest a little greater ease, and Mr. Bopp indicated that he would favor slightly greater ease.

Mr. Bryan commented that he did not know what slightly greater ease meant. He felt that the System ought to supply seasonal requirements for reserves plus some additional amount of reserves as a kind of contracyclical measure. Mr. Johns said that he wished to associate himself with the point of view expressed by Mr. Robertson.

Mr. Szymczak stated he would favor continuing the existing degree of ease. Mr. Balderston agreed, but added that he was concerned that after the turn of the year the bill rate might cause a situation that would be quite different.

Mr. Shepardson suggested that the most significant thing about the money supply was the relationship of that supply to the demand for money. When demand slackened, a sloppy condition could occur without any increase in the money supply.

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Chairman Martin remarked that he had commented several times on the contrast between 1957-58 and the present situation, the international situation being the principal difference.

The Chairman then stated that the results of the poll indicated that the majority was clearly in favor of continuing the present degree of ease, with the feel of the market constituting the guiding factor. A clear majority would like to have the bill rate stay as high as possible.

There being no further comments, the Chairman noted that the minutes would record the varying shades of opinion that had been expressed.

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

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System Open Market Account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, while taking into consideration current international developments, 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

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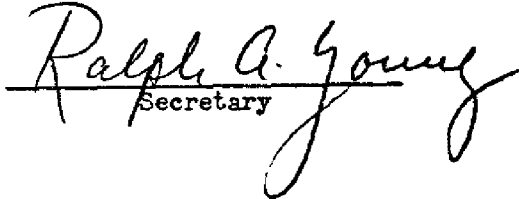
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of securities for the Account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than \$1 billion;

(2) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate \$500 million.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, January 10, 1961, and that the ensuing meetings would be tentatively scheduled for January 31, February 14, and March 7, 1961.

The meeting then adjourned.

  
Secretary