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, February 10, 1959, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Fulton
Mr. Irons
Mr. Leach
Mr. Mangels
Mr. Robertson
Mr. Shepardson
Mr. Szymczak

Messrs. Allen, Johns, and Deming, Alternate Members of the Federal Open Market Committee

Messrs. Bopp and Leedy, Presidents of the Federal Reserve Banks of Philadelphia and Kansas City, respectively

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Sherman, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Daane, Marget, Walker, Wheeler, and Young, Associate Economists

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

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

Messrs. Roosa, Baughman, Jones, and Tow, Vice Presidents of the Federal Reserve Banks of New York, Chicago, St. Louis, and Kansas City, respectively
Messrs. Larkin and Balles, Assistant Vice Presidents of the Federal Reserve Banks of New York and Cleveland, respectively 1/
Mr. Stone, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Anderson, Economic Adviser, Federal Reserve Bank of Philadelphia
Mr. Parsons, Director of Research, Federal Reserve Bank of Minneapolis

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on January 27, 1959, were approved.

Before this meeting there had been distributed to the members of the Committee a report prepared at the Federal Reserve Bank of New York covering open market operations during the period January 27 through February 4, 1959, and a supplemental report covering the period February 5 through February 9, 1959. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Mr. Larkin stated that developments since the last meeting of the Committee had been dominated by the Treasury refunding, in which the attrition ($2.1 billion) was substantial and necessitated emergency cash financing in the form of an issue tomorrow of $1.5 billion of tax anticipation bills due in September. In yesterday's

1/ Mr. Balles joined the meeting during the presentation of reports on district conditions.

Treasury bill auction the average rates on the three-month and six-month bills were 2.81 per cent and 3.33 per cent, respectively, and the market was anticipating an average rate somewhere between 3-3/8 per cent and 3-1/2 per cent in the auction of tax anticipation bills tomorrow.

Mr. Larkin also said that the Account Management had about completed the preparation of the annual report to the Committee and hoped to put it in the mail this week. The report, which would review the year 1958 in detail and spell out some of the problems encountered by the Account Management during the year, would not attempt to offer solutions for those problems. However, it would raise questions which, it was hoped, might stimulate thought and discussion and lead to solutions.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period January 27 through February 9, 1959, were approved, ratified, and confirmed.

The staff economic and financial review at this meeting was in the form of a visual-auditory presentation, participants including Messrs. Thomas, Young, and Marget. A copy of the text of the presentation has been placed in the file of the Committee. In addition, copies were sent following the meeting to the Committee members and alternate members and to the Presidents not currently on the Committee.

A summary of portions of the presentation follows:

A further rise of 2 points in industrial production to an index of 144 in January is now tentatively estimated, with increases widespread but small. Prices for some strategic industrial materials and products also have risen further.

Unemployment rose in January about seasonally to an unadjusted total of 4.7 million, and the seasonally adjusted rate of unemployment at 6.0 per cent of the labor force was little changed from December. The level of unemployment does not reflect as much strength in demand for labor now as at the corresponding date of the 1953-54 cycle. In some major areas, unemployment rates are double the national average and are raising troublesome questions about structural, as well as cyclical, unemployment. Limited expansion in labor demand also is reflected in the January employment figures. There were further moderate gains in trade, Government, and similar activities but little change in manufacturing employment. Total nonfarm employment, seasonally adjusted, although firm, has shown only a small increase since last September and is still considerably below prerecession levels.

Average industrial prices have increased only a little during the marked recovery in activity from last spring's low, but prices of some basic industrial materials have risen considerably as business buying has surged upward, in part reflecting efforts to get ahead of possible work stoppages. Consumer prices, as well as wholesale prices, have shown little net change from their highs last spring. Expanding food supplies made an important contribution to recent stability in average consumer prices and this influence may continue for a time. Prices of services have continued upward.

Wage rates have continued their persistent rise. With more hours at overtime pay rates, the recent rise in earnings has been more rapid than earlier last year. Output per man-hour also has increased rapidly, however, and labor costs per unit of output in manufacturing have declined--a not unusual development at this stage of the cycle.

Expanding output and sales combined with rapid gains in productivity have been reflected in sharply higher corporate profits. By the fourth quarter, profits are estimated to have returned to the levels prevailing just prior to the onset of recession, and some further rise is likely in the first half of this year.

Expansion has been marked in nearly all major categories of demand. Total GNP in the present quarter is now estimated at a $465 billion annual rate, or $39 billion above the recession low a year ago. Consumer spending, including greatly expanded outlays for residential construction, accounts for half of the increase. The remaining half includes a sharp turn-around in inventory buying and significant expansion in outlays by Federal and by State and local governments. Business outlays for fixed capital are down a little.

Reflecting increased availability of mortgage funds, strong consumer financial positions, and widespread confidence, outlays for new housing have risen sharply. Private housing starts rose from an annual rate of considerably less than 1 million units at the low in February 1958 to over 1.4 million in December. Public housing starts in 1958 were the largest since 1951. Whether consumer demands and availability of mortgage funds will support a continuation of the recent very high level of private starts is uncertain.

A quicker test of general market strength probably will come from autos. Sales of new domestic autos rose in December to a seasonally adjusted annual rate of around 5.8 million, compared with a rate of about 4 million in the first three quarters of 1958. January new car sales were a little below the December rate, but used car sales rose further. A clearer indication of the strength in new auto markets this year should come in the next couple of months. Meanwhile, reflecting a sharp rise in auto instalment credit, total instalment credit increased $300 million in December, the largest monthly increase in two years.

International Developments

While gold sales have diminished in recent months, the balance of payments has produced further large net transfers of dollars to the rest of the world. In the fourth quarter, imports rose considerably, and there was little change in total exports. Whether the balance-of-payments deficit will involve large gold sales again this year will depend partly on which countries are gainers of gold and dollars and partly on how much goes into official reserves as opposed to private dollar holdings.

In Europe, total industrial production advanced to a new high in the fourth quarter of 1958 after a year of little change. Expansion was reported in all countries except France and Belgium. In Germany, industrial output reached a new high in November and was unchanged in December. In Britain, the November upturn in output appears to have marked the end of a three-year consolidation period during which total industrial output moved within narrow limits, rising 3 per cent early in 1957 and declining 3 per cent in the 1957-58 recession. Plant and equipment outlays in Britain continued rising into early 1958 and then declined moderately. Substantial additions to British plant capacity in recent years have provided a basis for renewed growth of total output in 1959.

In Japan, a vigorous upswing in activity began last spring. In Canada, recovery has been slow and irregular.

Monetary and fiscal policy in Britain and many other industrial countries is being directed now toward expansion. With greatly strengthened international reserve positions, these countries now have interest rates considerably lower than in the autumn of 1957.

Adjustment of the U. S. balance of payments is likely to be slow. Provided U. S. exporters--and the Government itself, in the field of agricultural products--pay attention to competitive conditions, expansion of activity abroad will favor renewed growth of our exports. Shifts in interest rates may help shift international demand for credit and loans to potential lenders in Europe.

Domestic Financial Developments

The sharp rebound in corporate internal funds has been a major factor affecting money and credit markets in the United States in recent months. Profits recovered rapidly after mid-1958 and depreciation allowances also increased, although less rapidly last year than earlier. Business demands for both short- and long-term financing moderated in the latter part of the year. While there was some firming of business loan demands from banks in the fall, it reflected in large part seasonal influences and was followed by moderate repayments in January.

Corporate long-term financing, which had been especially large early in 1958, declined late in the year as did bond flotations by State and local governments. Rapid expansion of mortgage debt, however, about offset the contraction in other private demands for long-term funds. Thus far in 1959, corporate security issues have continued in reduced volume, but bond issues by State and local governments have increased sharply. The rise in municipal financing reflects in part the large backlog of authorized but unissued bonds.

Net borrowing by the Federal Government was large in January, in contrast with usual net retirement of debt in that month, and the net increase in Federal debt over the first half of 1959 will be somewhat larger than in the same period last year. Moreover, even with a balanced budget for fiscal 1960 as a whole, the Treasury will need to raise almost as much new money in the July-December period of 1959 as it raised a year earlier.

With private, as well as governmental, demands for long-term credit sustained at high levels and investors anticipating increased demands for funds as recovery continues, long-term interest rates have turned up recently following a moderate decline from the peaks reached last fall. Yields on outstanding high-grade corporate bonds have risen to postwar peaks and are seven-eights of a percentage point above the yields on common stock.

Stock prices have declined recently in less active trading and are little changed on balance from the year-end. The level of stock prices, however, is still currently almost two-fifths higher than a year ago, and stock market credit has expanded by one-fourth.

As the economy pushes into new high ground in 1959 we will become increasingly concerned with problems of sustainable growth. A key question for Federal Reserve policy now is what rate of monetary growth would contribute most to sustainable economic expansion without inflation. The rate of monetary expansion last year was exceptionally rapid from February through July, and it then slackened. For the year as a whole, it amounted to 6-1/2 per cent for all deposits and about 3-1/2 per cent for the active money supply. Currently, the active money supply is about 2-1/2 per cent above its prerecession peak in the third quarter of 1957--about the same rate of increase as for GNP in real terms.

It thus appears that economic expansion may have about caught up with the monetary basis that had been previously established. Forces outside the banking area, however, are likely to determine the course of events. This situation reflects the fact that the bulk of the lending to finance investment and consumption comes from sources other than bank credit and that financial savings appear to be continuing at a high level. While the creation of money through the expansion of bank credit can at times, by stimulating spending and investment, bring about economic expansion, it should not be a substitute for saving in "real" terms or for extended periods.

With resumption of business borrowing, prospective large demands for mortgage and consumer loans, and the financing needs of governments, total demands on credit and capital markets are likely to increase as economic activity expands.

While expansion is not likely to be hampered by lack of funds, saving will need to be encouraged to cover the bulk of the financing demands if pressures on bank credit creation are to be kept within limits consistent with sustainable growth. In such a situation economic pressures are likely to maintain a relatively high level of interest rates.

Over-all demand pressure for funds in 1959 on the available supply of loanable funds will be heavily influenced by Treasury borrowing. Since the turn of the year, developments in money and security markets have reflected largely the pressures and anticipations rising from Treasury debt operations in process and in prospect. Treasury bill rates rose early in January in contrast with their usual decline, and recently the 90-day bills have declined somewhat, reflecting in part shifts of funds from maturing obligations. Yields on longer bills and other short-term issues are considerably above those for short bills. Bond yields advanced to new highs.

The $2.1 billion cash attrition on the recent large Treasury refunding has necessitated an immediate new cash financing of $1.5 billion of September tax bills which are to be sold on February 11. Payment is called for on February 16 in order to attract funds that will be made available from cash redemptions of the recent refunding before they are invested elsewhere. After this financing operation, the Treasury does not expect to be in the market for funds until early April.

Total loans and investments at city banks declined during the first five weeks of 1959, reflecting substantial, largely seasonal, reduction in bank loans. As a result of Treasury financing, bank holdings of Government securities increased in January, in contrast to the usual decline. As a consequence, Government deposits at banks did not decline as they usually do in January. The private money supply appears to have declined about the customary seasonal amount. This record shows no evidence of a particularly strong private demand for bank credit; rather, it is a record of maintenance of total credit and the money supply on about an "even keel."

Turning to policy matters, economic and financial conditions generally still suggest that any bank credit and monetary expansion in the weeks ahead should be held to a moderate rate. Yet, policy actions may need to be more delicately attuned to the course of events in order to avoid placing undue restraint on the supplying of monetary needs for proper growth and at the same time not to stimulate unsustainable uses of credit. Perhaps the appropriate degree of restraint on expansion can be exerted by making it necessary for reserve demands in excess of normal seasonal and some merely temporary needs to be covered by member bank borrowing. Presumably an early increase in discount rates will be in order.

During February required reserves should decline considerably in consequence of the scheduled drawing down of Treasury tax and loan accounts and a further seasonal decline in private demand deposits. The reserves due to be released should be absorbed by open market sales of perhaps as much as $300 million during the next two weeks, if restraint is to be maintained on credit expansion. If deposits decline as much as projected, restraint should not be any greater than that which has recently prevailed. If they should show a greater decline, then member bank borrowing should also be permitted to decrease, but in view of the current trend of economic forces such a development is unlikely.

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

The business recovery is continuing at a moderate pace, with no upsurge in plant and equipment spending, no general accumulation of inventories (steel being a special situation), and no increase in unfilled orders of manufacturers. Recent figures on automobile output and sales, while better than last year, show no sign of a vigorous surge. Unemployment is still significantly high, and a good deal of public attention is being given to the problem of appropriate long-run rates of growth. The price picture is essentially unchanged since the last meeting and exhibits a considerable degree of stability. In the Second District the business outlook is virtually as favorable as for the nation as a whole, with construction one of the most buoyant factors.

The behavior of the stock market over the past two weeks suggests a somewhat more cautious market appraisal of the outlook. It is encouraging to note some increase in issuance of new equity securities, while the backlog of corporate bond issues is, for the present, well below the level of a year ago.

However, any satisfaction resulting from these developments must be tempered with concern over the prospect for Treasury financing. Besides the current special bill offering, the Treasury will probably have to come to the market for new money not only in April and May but also in most months of the second half of the calendar year, when the total to be raised will exceed that of any half-year period in recent years.

As for bank credit developments, there does not seem to be anything to worry about yet in the expansion of business loans. The decline in January at weekly reporting member banks was sharper than in any of the last four years except 1958. Recent changes in bank investments have been less reassuring, reflecting as they do the underwriting of the Treasury's January cash financing.

It seems to me clear that the business situation calls for no change in the present degree of credit restraint. Yet the large and almost continuous schedule of Treasury borrowing shows every likelihood of bringing the capital markets increasingly under pressure, thus tightening credit conditions even without any aggressive System effort at restraint. I am troubled by the prospect that the upward trend of interest rates caused by this Treasury borrowing--even without further restrictive action by the System--may be sharper than will be appropriate for the general state of business activity. If we were to attempt to compensate fully for the inadequacies of fiscal policy with a policy of intensified credit restraint, it would be all the more inappropriate. I think we must guard against presenting too restrictive a "posture" to fit the economic facts. All of this points to the wisdom of using open market operations to preserve a steady but not increasing degree of restraint as measured by the feel of the market. I see no need to alter the directive.

The discount rate presents a more difficult question. I am aware that several of the Banks have spoken for some time of an increase being "overdue", and most of us would probably have moved before this if there had been no Treasury financing problem. Although I would regret further action on our part to produce greater restraint, I suspect we will have to raise the rate in order to get it into closer alignment with the degree of pressure now in effect and likely to persist as Treasury borrowing operations continue in the weeks and months ahead. Assuming that the Board and most of the Banks still favor an increase within the next few weeks (after completion of the Treasury financing), I would therefore be inclined to recommend an increase at the New York Bank. Two factors in favor of such a recommendation are the desirability of presenting as uniform a front as possible and the fact that this will be one of the few periods in prospect this year when we will be "free" to act from the standpoint of an even-keel policy for the Treasury's operations.

It is essential, I think, that the increase be regarded as a technical adjustment to reflect an increase which has already occurred in market rates, and not as a signal that we intend to move aggressively toward further restraint. In any case a discount rate rise may invite blame for an upward trend of interest rates which is likely to come for reasons quite apart from monetary policy. I believe we should be very reluctant to "lead" the rise. The decline in Treasury bill rates of the last two weeks would, if sustained, have made it difficult to explain a discount rate rise to 3 per cent as a technical adjustment. In the last two days, however, the unexpected return of the Treasury to the market for $1-1/2 billion of new money and the resulting rise in bill rates have made it a little easier to justify a 3 per cent rate, although the case is as yet by no means clear. It may be clearer by the time we are actually prepared to move. Of course, one factor arguing for an increase this time of 1/2 per cent rather than 1/4 per cent is the prospective scarcity of opportunities when we will have some freedom of action.

Our directors discussed this issue in general terms at their meeting last week. They showed considerable reluctance to increase the rate in the face of the continued high level of unemployment and the uncertain pace of the recovery, the possibility that the System might invite criticism for accelerating the interest rate rise, and the likelihood that this criticism would be accentuated if, as seems possible, the prime rate were to be raised almost immediately after a discount rate increase.

If we do agree on the wisdom of an increase, there is still the matter of timing to decide upon. To my mind, the need for a decent interval after completion of the current Treasury financing suggests that the move should not be made earlier than the last week of February or the first week of March. The latter period would have one advantage in that it would give us another chance to canvass the situation together before making the move.

Mr. Johns stated that in the last two weeks he possibly had lost a little of his zeal for a policy change in the direction of tightening, perhaps for tactical or strategic reasons rather than on economic grounds. Recent estimates by the St. Louis Bank regarding growth of the money supply indicated that during the four-month period ended January 31, 1959, the active money supply and the total money supply might have increased by about 4.8 per cent and 4.5 per cent, respectively, whereas statistics for the four-month period which ended January 31, 1955, suggested increases of 4.5 and 4.2 per cent, respectively. As he read the policy record of the Open Market Committee for the earlier period, there appeared to have been two months of active ease, one month of ease, and a fourth month when policy was more or less neutral, which tended to cast some doubt upon a conclusion that recent open market policy had been very restrictive. More important, it seemed to him, was the thought that the Committee ought to begin now--in fact should have begun sooner--to pay more attention to what was happening to the money supply and less to what was happening day-by-day and week-by-week in terms of a reserve target of some particular figure.

Mr. Johns recalled that at the Committee meeting on August 19, 1958, Chairman Martin referred to a suggestion by Mr. Young that the wording of the policy directive be in terms of tempering the rate of expansion of the money supply, which would have the advantage of being directed specifically to what the Open Market Committee does. At the same meeting Mr. Balderston also suggested a similar concept, stating that he would like to see the directive phrased along lines of adjusting the money supply to the constructive needs of the economy, which he felt was especially important at that time. By and large, however, those suggestions fell on deaf ears, including his own. The suggestion of Mr. Young drew from one person present a comment that it seemed to contemplate some continued expansion of the money supply, which in the view of that person would be undesirable.

Mr. Johns said that he was not sure exactly how this thought might be carried through to an ultimate conclusion as far as policy directives and open market operations were concerned. However, it seemed to him that the idea was worthy of serious consideration and study with a view to concentrating the attention of the Committee upon its ultimate objective and diverting attention from other targets and methods of operation which in his opinion were not very obviously and closely related to the Committee's objectives. In fact, they sometimes tended to operate in perverse fashion. The argument, of course, might be made that this would not give the Desk any specific instruction under which to operate. Assuming, however, that the Committee knew what concept of the money supply it wanted to use, and recognizing that there would be some lag in statistics of the kind he had mentioned, he envisaged that procedure under such a directive might involve doing the best job possible in the transition period and then adjusting if necessary. In any event, he would feel that the money supply as a guide to open market operations was no more general than the concept of sustainable economic growth and stability now stated in the Committee's directive.

Mr. Bopp said that, except for an upsurge in steel production, there had been no notable business and financial developments in the Third District in the past two weeks. Department store sales continued to show gains over a year ago, automobile sales were somewhat below last year, employment in December was steady, and loans and deposits of district reporting banks had declined. Borrowing from the Reserve Bank in the past two statement weeks was at a daily average of $15 million, reflecting primarily borrowing by country banks. The large Philadelphia banks had been obtaining practically all of their funds in the Federal funds market, with purchases averaging somewhat more than $20 million daily, but they borrowed a total of $63 million from the Federal Reserve Bank last Friday, the first time all six reserve city banks had borrowed at one time since June 1957. All such borrowings were repaid yesterday.

Mr. Bopp then reported that a meeting of economists from the Philadelphia area last week, with representation from varied types of businesses, revealed moderate but somewhat restrained optimism as to prospects for 1959. For most of the types of business represented, production and sales were expected to be from 5 to 10 per cent above last year. Most of the economists expected 1960 to be a really good year.

Mr. Bopp also commented on a telephone survey of consumer intentions by one of the Reserve Bank's economists in which a random sample of 400 families in the Philadelphia metropolitan area responded to the question: "If you received $2,000 that you had not expected, how would you use it?" Even though the responses reflected "off the cuff" rather than considered judgment, the results were interesting in that over one-half of the respondents stated they would save the money or use it to pay bills, another 24 per cent would divide the amount between spending and saving, and only 16 per cent would spend the entire amount. As to the form of saving, about 70 per cent of those who would save said they would put the money in a commercial bank, savings bank, or savings and loan association, about 20 per cent would buy stocks, and 10 per cent would buy bonds or build up their cash reserves. Of those who would spend, about 25 per cent would make home repairs, 18 per cent would buy furniture, 10 per cent would make a down payment on a new home, 8 per cent would take a vacation, 6.8 per cent would buy an automobile, and only 3.6 per cent would buy major appliances.

Mr. Bopp said that he saw no need for a change in the policy directive at this time. He would favor continuing approximately the present degree of pressure on the market, and he was open to suggestion regarding the discount rate, particularly with regard to the timing of any change.

Mr. Fulton reported that steel mills in the Fourth District were receiving heavy orders. Some users of steel who anticipated a strike in the industry this summer had come in earlier with their orders, and those who delayed making a decision were now trying to get orders placed on the books. Although the mills were operating at high rates, products such as galvanized sheets and electro-plated tinned strip were in tight supply. It might be said that at the moment the industry was living in a fool's paradise. It was endeavoring to get customers to agree that, in the event of a strike of short duration, they would take only 20 per cent of their steel needs from their inventories and would buy at 80 per cent of the normal rate until excess inventories were worked off in order to assure the mills some continued operation.

After stating that orders for machine tools had increased rather sharply, Mr. Fulton said that in a recent survey the Reserve Bank's Research Department asked a number of industrial firms whether they were going to increase their capital investment this year and more than half responded affirmatively, with the emphasis on equipment rather than plant. In this connection, one steel mill reported that the number of its employees had increased from about 40,000 at the low point of the recession to about 60,000 at present, compared with a peak figure of about 70,000, but that it did not anticipate going back to the peak figure. Other industries also advised that modernization of equipment and capital investment was permitting a smaller group of employees to produce more goods than a larger number of employees produced some time ago. This seemed to suggest a rather chronic condition of unemployment, for employees of this type could not easily transfer into service industries.

Mr. Fulton said that department store sales in the Fourth District were down somewhat since December and were now running about 3 per cent under a year ago, but automobile sales had increased. People in the automobile industry appeared to have dropped their estimate of 1959 sales potential from 6 million to 5.8 million cars, exclusive of imports of foreign cars.

As to policy, Mr. Fulton said he felt that he would like to see a firmer hand kept on the availability of funds, although he appreciated that float resulting from weather conditions had made it difficult for the Desk to engage in day-to-day operations such as to maintain the contemplated degree of pressure. The fact that the bill rate had moved up after slackening off was indication of a little greater pressure, which seemed desirable. He would be agreeable to a change of 1/2 per cent in the discount rate as early as possible, and he believed that some time early in March probably would be about the first appropriate opportunity. He would not favor a change in the directive at this time.

Mr. Shepardson said that the increasing productivity of industry was certainly all to the good as far as long-run developments were concerned. The unemployment situation apparently would be a problem for some time due to the difficulty in bringing about a reallocation of labor in any short period. The prospect of a high level of consumer income should encourage expansion of new outlets for increased consumer spending, and there might be a need to provide for reasonable continued growth. On the other hand, study of the picture as to reserves and money market rates seemed to indicate that there had not been the degree of firmness contemplated at the last two meetings of the Committee. While the picture was confused by differences between the reserve projections of the New York Bank and the Board's staff, he was inclined to agree with Mr. Fulton that the Desk had not quite maintained the degree of pressure sought by the Committee. The projections seemed to indicate a need for action at some point in the period just ahead to absorb some of the excess reserves that would appear in the absence of such action.

Mr. Shepardson said that he thought Mr. Johns had touched on a point that was of importance and should not be lost sight of this spring. The Committee should not get trapped in a situation such as prevailed last year, when by setting up a target of free reserves it continually added at a faster rate to the money supply than perhaps was realized at the time. Therefore, he would hope that a little more pressure might be exerted on the market than seemed to have been accomplished recently. Such a degree of restraint probably would have a desirable reaction on the bill rate and result in its returning to the levels of the earlier part of last month. In line with such a change, it would seem entirely appropriate, after a suitable lapse of time following the present Treasury financing, to look forward to an increase of 1/2 per cent in the discount rate.

Mr. Robertson suggested that this was a most difficult period from the standpoint of knowing what to do, because the economy seemed to be going down a road on which one could not see the turns ahead. While he was inclined to think that the next turn was going to be upward and that it would be desirable to slow the speed a little in the meantime by being slightly more restrictive, he could not bring himself to feel that System policy should be a great deal more restrictive than at present. Mr. Johns, he said, deserved credit for bringing to the Committee's attention the possibility of changing its targets, for he was not at all sure the Committee had arrived at the most intelligent way of providing targets or issuing directives. While he could not see at this moment exactly how the money supply might be used as a target instead of free reserves, the matter deserved careful study.

As to the discount rate, Mr. Robertson noted that the System probably would have only about six weeks in which to act. It could not act this week and it should not act next week. This left a period of possibly five weeks, after which the Committee in a sense might just as well take a vacation through April and most of May. Consequently, it seemed important to act in the most intelligent way when the opportunity was available, especially since it seemed unlikely that there would be more than one action on the discount rate. In all the circumstances, he hoped that action might be deferred until it was possible to see as clearly as possible what amount of increase would be appropriate. At this moment, his inclination would be to suggest an increase of 1/2 per cent, but he was not sure this was right and a better judgment might be possible by the first week of March. Certainly, discount rate action should be taken to put the System in a proper posture to meet whatever was ahead, which in his opinion would be a movement upward, perhaps quite sharply.

Mr. Leach stated that data on the Fifth District economy which had become available since the last Committee meeting were a little disappointing. Nonagricultural employment, seasonally adjusted, declined slightly during December, and seasonally adjusted man-hours were down that month in most manufacturing industries. Construction contract awards dropped in December, continuing a decline that began last August, and bituminous coal production in the first three weeks of January was down from recent levels, due principally to the fall-off in foreign demand. Although business loans of weekly reporting member banks rose during the past two weeks, there was a net decline of 5 per cent for the month of January--more than in the corresponding period of any of the past four years. Notwithstanding these adverse indications, however, he believed that business activity in the district was still gradually expanding.

One of the more significant developments in the district, Mr. Leach said, was the increase in wage rates now spreading through the textile industry. The general pattern seemed to be an increase in the minimum wage to $1.25 an hour and a raise of around ten cents an hour for workers already above the new minimum. The immediate effect of this wage increase, coupled with lower support prices for 1959 cotton, was a decrease in trading activity because of price uncertainty.

Mr. Leach expressed the view that prevailing economic conditions did not call for an immediate marked change in credit policy. Similarly, although Treasury bill rates had advanced again in the last day or two, this did not, in his opinion, require a hurried increase in the discount rate. In the absence of a pressing need for a changed posture, it seemed essential to continue for a reasonable time after February 16--the date of completion of the current Treasury financing--the even-keel policy now being maintained.

This would mean attempting to continue until the next meeting of the Committee the same degree of pressure that the Committee had been aiming at, with the discount rate unchanged. He would like to see any change in the rate made at a time when the Treasury bill rate was such that the change would be interpreted as an alignment rather than a signal of greatly increased intensity. The main consideration regarding the timing of a rate change was the Treasury financing, along with a desire not to play unfair with those who had just purchased new Treasury securities in the refunding, for that would make the difficult task of the Treasury even more difficult. For those reasons, he would prefer to postpone a change in the discount rate until after the March 3 meeting.

After commenting that he had no developments of significance to report from the Tenth District, Mr. Leedy expressed the view that the most important thing with which the System had to deal at the moment was the rampant inflationary psychology pointed up by the recent experience of the Treasury, which indicated to him that something more needed to be done than had been done thus far. The System, of course, wanted growth as well as stability, but if temporarily there had to be a choice between growth and arresting inflationary psychology he would favor the latter course. The fact that the System had not given greater evidence of a firm intent to grapple with the problem might have, in Mr. Leedy's opinion, made some contribution to what had occurred. In the short interval available, he felt that the System should show an intent to play its role in undertaking to dissipate the feeling that inflation was inevitable. To him that meant that as soon as the Treasury financing was out of the way the System ought to apply some noticeable additional pressure on bank reserves and also increase the discount rate. While the rate need not be adjusted before the third week in February or even the first week in March, the idea of regarding the increase as merely a technical adjustment was rather distressing to Mr. Leedy; it would be preferable if such a change were regarded as a move further in the direction of combating what he considered the System's principal problem. What could be done in this area was quite limited, but to the extent possible the System should be giving notice that it was not going to be a party to continuing inflation in this country.

Mr. Allen stated that evidence from the Seventh District since the meeting two weeks ago indicated further increases in business activity. January sales of Sears Roebuck, far and away the nation's largest seller of general merchandise, were up about 15 per cent from January 1958, and although the results a year ago were relatively poor the current performance was very strong on its own. District department store sales in the week ended January 31 were 6 per cent over last year, and despite concern about the slow rise in employment there was ample evidence that labor markets were gradually tightening. A recent report by the Bureau of Employment

Security indicated that three district cities had been upgraded and since July 1958, the worst month, ten cities had been upgraded. Three Chicago area steel producers had recently announced plans to increase capacity. Such announcements, coming from an industry said to be plagued with excess capacity, could herald a fairly general rise in capital spending.

Mr. Allen said that commercial and industrial loans of district reporting banks in the two weeks ended January 28 were off only $16 million, compared with declines of $121 million in 1958 and $42 million in 1957, and Chicago banks reported no net change in business loans in the week ended February 4. These figures indicated a stronger loan demand in the district than in the nation generally, doubtless accounted for by the fact that borrowing by producers of metals and metal products was so important in that area. Reserve pressures on large district banks had eased considerably over the past three weeks, and borrowing at the Reserve Bank's discount window had dropped to less than half the level that prevailed from early December to mid-January.

Turning to the automobile situation, Mr. Allen said that sales in the last ten selling days of January were at the rate of 16,820 per day, compared with 16,951 in the eight selling days of the January 11-20 period. While the usual pattern calls for a steady rise through the month and this was the first time since August 1958 that a declining intramonthly rate had been seen, the decline was slight and some industry analysts blamed inclement weather. Furthermore, total January sales exceeded those of a year ago by 12.3 per cent.

As to policy, Mr. Allen said he would like to see the prevailing degree of restraint continued for the next three weeks, with any doubts resolved on the side of further restraint. While the question of a change in the discount rate in the near future perhaps had not been discussed as fully with the Chicago directors as with the boards of directors of some of the other Banks, he felt that the Chicago directors would be agreeable to moving the rate up one-half per cent at any time provided other Banks also moved. It was his present feeling that he would recommend a discount rate increase at either the February 19 or March 5 directors' meeting, and apparently March 5 might be the better date.

Mr. Deming said that Ninth District conditions were not appreciably different from those reported previously. Like Mr. Shepardson, he did not quite understand the major differences between the reserve projections of the New York Bank and the Board's staff. However, from the report on the tone of the market it appeared that the degree of pressure had been just about what he would like. While he believed that the discount rate ought to be increased, he had been uncertain about timing at the last Committee meeting and he was even less certain now. On balance, he would prefer to wait until after the next Committee meeting before moving. At this point, he would be inclined to an increase of one-half per cent, and he leaned toward the position that the move should be regarded more as a technical adjustment than an outright restrictive action.

Mr. Mangels reported that Twelfth District business conditions continued on the up side. Final December employment figures were better than the estimate he reported at the last meeting. Los Angeles had been reclassified from a substantial surplus labor area to one of slight surplus. Boeing Aircraft, the largest employer in the Northwest, was now operating with some 73,700 employees, an all-time peak, and that company had military orders alone somewhat in excess of $2 billion in hand or anticipated for 1959. Construction in December was about 6 per cent above November, the increase reflecting mostly residential construction, and about 66 per cent higher than a year earlier. Mortgage funds were still available, although one large San Francisco bank that was quite active in the mortgage field had indicated that it was rapidly approaching the point where it would have to restrict real estate credit. Interest rates on conventional mortgages were now 6 per cent, compared with 5.85 per cent last October. Steel output in January was at the highest levels since mid-1957, while the lumber industry continued to show improvement in orders along with some price increases.

Mr. Mangels said that reporting banks showed a decline in both demand and time deposits in the two weeks ended January 28, while loans were down in all categories except real estate and consumer credit loans. Holdings of United States Government securities increased during the same period and purchases and sales of Federal funds ran about even. Borrowing at the Reserve Bank was rather scattered and intermittent.

Mr. Mangels said that the System should not increase restraint much in the period immediately ahead and he would continue to use as an objective what the Committee had had in mind recently. One Twelfth District bank had expressed informally the opinion that something should be done to restore confidence in the Government securities market such as permitting free reserves in the range of zero to $100 million. He did not endorse such a view, however, and felt that free reserves should stay on the negative side at somewhat below the $100 million level.

As to the discount rate, Mr. Mangels felt it would be desirable to wait until March before making a change. He saw no pressing need for change at this time for psychological effect since prices had been reasonably stable, unemployment continued high, business was exhibiting no particular boom, there continued to be excess productive capacity, and inventory accumulation was quite modest. He did not consider it necessary to raise the rate to restrain member bank borrowing, for borrowing in January averaged only $567 million and in the week ended February 4 only $390 million. The market was still in a period of digesting Treasury issues and he felt that such issues should be permitted to get into firmer hands before action was taken on the discount rate. Mr. Mangels said that he considered the policy directive satisfactory.

Mr. Irons said that Eleventh District conditions continued to show modest strengthening, with some segments of broad economic activity showing clear improvement. On the less favorable side, weather had been bad for the past month, which gave a slightly unfavorable tinge to agricultural developments. The crude oil industry was not quite as optimistic as it had been, with imports rather substantial and some decline in prices, which appeared to have been reflected in some fall-off in drilling. Employment and unemployment figures had about tracked the usual seasonal movement. He was not too disturbed about the employment situation nationally or in the Eleventh District.

On banking, Mr. Irons said that the Eleventh District was in general experiencing a seasonal movement. Demand for loans continued strong, with some larger reserve city banks rather fully loaned in terms of loan-deposit ratios.

Taking into consideration that January is always a rather uncertain month, along with the complications involved in seasonal factors, the weather, and some strikes, he felt that the general situation was favorable and that the district was continuing to show gradual improvement and strength.

As to policy, Mr. Irons said that he too had been confused by the differences between the reserve projections of the Board's staff and the New York Bank. If, as the Board's staff suggested, there would be free reserves ranging up to $293 million during the next three weeks, some selling by the Open Market Account would be indicated. On the other hand, if the latest New York projections showing net borrowed reserves up to $236 million were correct, some funds possibly should be put into the market to lessen the pressure.

At this point, Chairman Martin called upon Mr. Thomas for comment regarding the reserve projections.

Mr. Thomas said that for the current statement week it now appeared that there would be a lower level of net borrowed reserves than had been expected, due primarily to unpredictable variations in float and the Treasury balance. Float had held higher and Treasury balances had stayed lower than anticipated. That was one of those margins of error that one could not do anything about in any particular week.

After Mr. Shepardson observed that even for the statement week ending tomorrow there was considerable variation, with the Board's staff estimating net borrowed reserves averaging $24 million and New York estimating an average of $102 million, Mr. Thomas said that the revised New York figures would be available within a few minutes and probably would be lower than $102 million in view of what had happened yesterday. However, the differences between the projections for the forthcoming weeks were fundamental and of substance. As he had said, float was remaining at a higher level recently than one might have expected on the basis of the normal pattern, and the Board's staff had made the assumption that it would stay at a higher level. However, the longer-run and more fundamental difference was in the estimate of required reserves. The Board's staff was assuming that the Treasury balance, now very large, would decline and that at the same time there would be the normal seasonal decline in private deposits. On the other hand, New York apparently had assumed that the decline in Treasury deposits would be more or less offset by an increase in other deposits. That would be contrary to normal seasonal variations and would indicate a seasonally adjusted expansion in the money supply.

Chairman Martin then turned to Mr. Larkin, who expressed general agreement with what Mr. Thomas had said. He added that this was one of the problem areas the Desk encountered last year and that comments on it would be included in the annual report to the Committee as well as on the problem of free reserves or net borrowed reserves as targets, alluded to by Mr. Johns earlier in the meeting. Mr. Irons then stated that he considered the execution of policy during the past two weeks to have been satisfactory, with appropriate restraint on the availability of reserves throughout that period. He hoped that in the next three weeks it would be possible to maintain about the same degree of restrictiveness, although any deviations should be on the side of further restraint. He would not deliberately try to achieve further restraint but would resolve any errors on that side. That would not be out of line with economic conditions as they were developing. The main thing was to avoid errors on the side of ease in the present situation.

As to the discount rate, Mr. Irons said he was not sure what to recommend, but he felt that what the System was doing was not exactly right. The Committee was constantly talking about maintaining an even-keel policy, but the Treasury did not have huge success with its recent financing, although in the absence of an even-keel policy things might have been worse. He suggested that deferring a discount rate change would not "fool" anyone since informed people were even now assuming that after the Treasury was out of the market the rate would be increased, and whether the change was made on February 12, February 19, or March 3 would not make a fundamental difference. He then suggested that the term "technical change" implied that the need for a discount rate change was something the market had created, whereas the Committee had been influencing the availability of reserves right along. This was all part of a credit package, for what the System had been doing was to make traditional use of open market operations to prepare the market for a subsequent rate change. Mr. Irons said he would not like to give the impression that a discount rate change really did not mean much, or that it was only a technical adjustment for which the System should not take responsibility. Furthermore, he did not like to hear it said in February that the System could do nothing in April or May, for that seemed to represent almost an abdication of policy determination. So far as he was concerned, it would be as well to change the discount rate on February 12 instead of waiting until March when another set of circumstances would appear. Whether the Chairman and the Secretary of the Treasury ought to work out some different approach, he did not know, but he did not think the necessary job was getting done, as reflected by the results of the latest Treasury offering. He was inclined to agree with Mr. Leedy that sooner or later the System must take a firm stand, work the matter out with the Treasury, and let the market know what it intended to do.

Mr. Szymczak said he was hopeful at the preceding meeting that the Committee would have a clearer picture of all the economic factors by the date of this meeting, and thus be in a position to recommend action on the discount rate. However, the picture was still mixed as to all the economic factors and trends and, therefore, not conducive to action on the discount rate. The question was simply whether to add to the degree of restraint to leave monetary policy where it is, or to add to the reserves in the banks. To him, the policy that the

Committee has been pursuing is correct in the circumstances and in view of the total economic picture. In spite of seasonal factors, one could not disregard the unemployment statistics, for whatever the cause--seasonal, frictional, or structural, or a combination of these and other causes--there still are more than 4 million, almost 5 million, persons unemployed, and that is a major consideration in the formulation of economic policy anywhere in the world. The System has been doing the best it could do in all these circumstances, adding some reserves to allow for economic growth with consideration of the unemployment figure and the difficulties in Treasury financing but not pursuing a policy of ease at a time when inflationary expectations are dominant. It is leaning in the direction of restraint, but only to the extent that it can because monetary policy cannot operate in a vacuum, and monetary policy is based on art as well as science.

As to the discount rate, Mr. Szymczak said that he did not think that the System was prepared at this point to tighten monetary policy and a change in the rate at this time would be so construed. Rather, he felt that monetary policy should be left in its present posture with bank reserves somewhat on the negative side and that on March 3 another look could be given to the discount rate.

Mr. Balderston said he agreed with the remarks of Messrs. Hayes and Robertson concerning the discount rate. He would be inclined to wait until after the March 3 meeting and then increase the rate by one-half per cent. If it were humanly possible, he hoped that all connected with the System would refrain from making remarks that could be quoted in the press. While rumors cannot be prevented, those in the System should endeavor to keep from feeding them.

As to open market operations, Mr. Balderston said that the kind of policy followed in the immediate past seemed to him quite appropriate, for the steadiness that the System had been maintaining probably would be helpful in achieving the sustainable growth that everyone desired. He was much concerned about the long-run problem, however, for the reasons Mr. Johns had outlined. It was his feeling that the concept of a balanced economy--however arrived at--ought to be kept in mind by the Committee, particularly because of the enormous expansion of plant capital since World War II. Industries had so improved their equipment and techniques as to be able to get along with a smaller number of employees, leaving the country with heavy industrial unemployment. The problem was how to achieve a balanced economy that would cause the scale of living to rise and at the same time provide an acceptable number of job opportunities. He could see the problem, Mr. Balderston said, but he saw no answer.

Chairman Martin began his observations by suggesting that the Committee could not expect at any given time to be perfectly logical. The big problem at present was one of timing, and it would continue as long as there was the problem of Treasury financing, which had been out of focus now for a period longer than ten years. What happened this past week had changed his own views slightly as to emphasis, but he liked to look at the present period in relation to others--for example, early 1957. Without question the discount rate should have been moved up earlier than August of that year, but because of the persistent Treasury problem the System did not have an opportunity. Hence, there was now a continuing argument as to whether the System knew what was happening in the economy when it finally did move on the rate. While it did little good to go back and talk about what may have been past mistakes, one ought not try to justify policy for the wrong reasons.

It was quite interesting, the Chairman remarked, that at the recent hearing before the Joint Economic Committee on the President's Economic Report Senator Douglas of Illinois asked for a paper--which it was agreed would be written--on why the System should not give up the discount rate and just proceed through open market operations. This would not be an easy question to eliminate if all concerned were going to sit around the table and say that under all circumstances the rate pattern because of a lapse of time had no relationship to other factors. Actually, the adjustment that had taken place in short-term rates was the result of Federal Reserve influence in the market.

Chairman Martin then said that at this juncture he was inclined to favor maintaining an even keel. In that, he disagreed with Mr. Irons: having followed a general policy of even keel during Treasury operations, he did not think that at this point the System should discard that policy. It was important, he said, to have some framework in which to operate. The System was under no particular pressure at the moment, although it should not get into a position of easing the market to a point that would make it difficult to adjust the discount rate at a later stage.

The Chairman suggested re-reading the minutes of January and February meetings of the Open Market Committee over a period of several years, for they would show that at an early point in the year there always seemed to be a flood of bad news of one sort or another that could not be evaluated. In fact, he would be quite upset under present conditions if, as February came along, some items of the kind to which Mr. Leach had referred did not appear. One must avoid getting carried away by little downswings into making out on the basis of them a justification for a situation that had arisen primarily because of Treasury financing. He could see no harm in relating to the Treasury the observations made by Mr. Irons; in fact, he had discussed at some length with the Treasury the possibility of a discount rate change considerably before the last Treasury financing. It was necessary to bear in mind the Treasury's problem and also to minimize overt actions that would not be explainable, particularly at a time when speculation and investment had gotten out of hand. The real problem was that the saving-investment process was now impaired in this country as far as its usefulness for building plant and equipment was concerned. As Secretary Anderson said in recent testimony, if the time should come when the public thought it wise to speculate but foolish to invest, the country would really be in trouble. While such a stage had not been reached, the fact that there had been a movement in that direction was something that must be borne in mind. If the attrition on the financing had been lower and the Treasury had not been forced to go back to the market for $1.5 billion, he would have favored increasing the discount rate at the earliest opportunity, which in his judgment would have been about February 19. However, since the Treasury financing was construed by the public as a failure--even though it seemed questionable whether the financing actually was a serious failure--the System ought to be careful about doing anything to create the appearance that it was unaware, unalert, or unsympathetic to the plight of the Treasury. Therefore, he would be inclined to delay on the discount rate a little longer, and that seemed to be the sense of the meeting. Assuming that the Committee was going to continue about the same degree of pressure and there was no ease in the market in the interim, logical and correct discount rate timing in the light of existing factors would suggest forgetting about February 19 or 26 and moving on the rate around March 5.

The Chairman commented that Mr. Balderston had made a very real point in cautioning about leaks. The Committee had been discussing for the last two meetings what was going to be done in the future instead of in the present, and this created an unusual burden in talking with outside contacts. While the Treasury's problem and the circumstances of the present period warranted this kind of Committee discussion, he hoped that the Committee soon would be able to get back to the point of considering the steps to be taken in the reasonably near future.

Chairman Martin observed that the majority comments today indicated no change in the policy directive. If present policy were continued, if no ease developed in the market, if no additional pressure were created by overt actions, and if the Desk kept a posture of restraint within the framework of present Committee policy, it would be almost a requirement by the time of the next Committee meeting to recognize the market by raising the discount rate one-half per cent. An increase of one-quarter per cent would be a mistake in the present picture, he suggested, for the System would not want to lag the market when it had already been lagging for quite a period. While he believed that a discount rate change should be held over until the next meeting of the Committee, he hoped such a move would not be sidetracked on the theory that present policy could be handled through open market operations and no attention need be paid to the discount rate--a position that would play into the hands of those who argued there was no need for the discount rate because a change in rate would react psychologically on the market.

Chairman Martin then inquired whether there was agreement with his summary that the consensus favored no change in the policy directive at this time, and that it favored maintaining the same degree of pressure that had been exerted thus far during the period of even keel for some reasonable period after the books on the Treasury financing were closed. Such period might not have to extend until the first week in March, but in view of the results of the Treasury financing it probably would be wise to give the market that long a period of adjustment.

Mr. Shepardson inquired whether "the same degree of pressure" referred to the degree of restraint earlier contemplated by the Committee or the degree of pressure actually being exerted at present, which he felt was not very strong.

Chairman Martin commented that this was a good point. He went on to say, however, that it had been customary for the Committee to give the Manager of the Account discretionary authority based on the color, tone, and feel of the market. Mr. Shepardson had suggested that what was intended by the Committee had not quite been attained, but he (the Chairman) was quite certain the Desk felt that its operations had been in conformity with the enunciated policy. He then called upon Mr. Larkin for comment.

Mr. Larkin suggested the necessity of looking beyond mere figures. The Account Management, he pointed out, had been charged with maintaining an even keel during the period of Treasury financing. Therefore, while the Desk wished to maintain pressure on reserves, it did not want to take any overt action that would be disturbing to the market. With reference to the general feel of the market, he noted that Federal funds had been traded at the discount rate quite consistently during the last two weeks. There had been a temporary drop in bill rates, related primarily to the flow of money out of maturing Treasury issues, but other short-term rates did not go down. This period had also seen a 3-3/4 per cent rate on one-year certificates offered by the Treasury not generally accepted by the public. The general posture of the market seemed to him one of rather considerable pressure, as measured by a number of indicators. It was necessary, therefore, to look beyond the actual figure of net borrowed reserves to ascertain the true degree of ease or tightness.

Chairman Martin commented that Mr. Larkin's remarks brought out the element of judgment that must go into the execution of open market policy, and Mr. Shepardson said he was aware of that factor.

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

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System Open Market Account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to fostering conditions in the money market conducive to sustainable economic growth and stability, and (c) to the practical administration of the Account; provided that the aggregate amount of securities held in the System Account (including commitments for the purchase or sale of securities for the Account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than $1 billion;

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

At Chairman Martin's request, there were distributed to the members and alternate members of the Committee and to the other Presidents copies of an outline prepared by the Board's staff for a Treasury-Federal Reserve study of the Government securities market, the broad objective of which would be to develop information and suggestions pertinent to (a) improvement in the mechanism and functioning of the market, (b) prevention of speculative excesses that are possible from time to time, and (c) attainment of market conditions continuously adapted to orderly debt management and monetary operations.

The Chairman indicated that the outline was being distributed as a matter of information and also to elicit the assistance of all of the Presidents. Its preparation had come about as a result of the speculation in the Government securities market last summer and the work done on that problem to date, including the work done by the New York Reserve Bank through the Technical Committee of the New York Money Market. The members of the Committee, he noted, had now received the minutes of the meeting of the Technical Committee on December 10, 1958, which provided insight into the problems that had been raised, and Under Secretary of the Treasury Baird had expressed appreciation of the close assistance that he had received from the Desk and from the System in this matter.

Chairman Martin noted that among the questions raised by the work of the Technical Committee was whether an association of Government securities dealers, if it should develop, might involve a problem from the standpoint of the antitrust laws. In all the circumstances, the Board had concluded that it would be desirable to proceed in cooperation with the Treasury, and he (Chairman Martin) had had meetings with Secretary Anderson and other Treasury Department officials. He wished to make it very clear that there was not the slightest intention to minimize the role of the New York Bank in the study of this subject, and that it was the intent to bring the Bank into the study to the fullest extent. Rather, the thought was that this should be a joint study of the Federal Reserve System and the Treasury, and he considered it extremely important that the study be a System operation. It had been agreed that the Secretary of the Treasury would get in touch with the Attorney General and that he (Chairman Martin) would be in touch with the Securities and Exchange Commission in order to be sure that those parties were alerted. While it would not be desirable to spread the word of this project unduly, it was the desire to make a careful and intelligent study not only from the standpoint of minimizing speculation but also from the standpoint of effecting improvements in the functioning of the Government securities market.

Chairman Martin also commented that the rough study outline had just been finished this morning and that the Board members themselves had not yet had an opportunity to review it.

The Chairman then called upon Mr. Young who said it was the thought of the Board's staff, with which members of the Treasury staff agreed generally, that the study could be broken down into three parts. One part would be a fact-gathering operation to fill the gaps in information currently available, while a second part would consist of consultation with individuals in the market, partly to obtain factual information and partly to elicit suggestions for ways and means of strengthening and improving the market and preventing developments such as occurred last year. The third part would consist of evaluating the various issues, such as the possibility of establishing an organized exchange type of market instead of an over-the-counter market, legal limitations on the use of repurchase agreements, the possibility of establishing margin requirements against Government securities, and the possibility of a dealer organization. The study would have to be carried out rather expeditiously and it would be helpful to be able to call upon the Reserve Banks for personnel to the extent necessary. Also, it was contemplated that inquiries made of banks and nonfinancial organizations would go through the Federal Reserve Banks and be handled on a personal basis so as to minimize the number of questions that might arise.

Chairman Martin then commented that this was something of major importance to the work of the Federal Reserve System. He suggested that any views on the study be transmitted direct to Mr. Young.

Mr. Hayes commented that this was a highly constructive approach to a needed move. It was a matter that had been given much thought at the Federal Reserve Bank of New York, and that Bank was happy to cooperate.

The Chairman concluded the discussion by saying that he hoped the Technical Committee of the New York Money Market would not disband, for there would be reason to call upon the Technical Committee for assistance.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, March 3, 1959, at 10:00 a.m.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary