

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, July 28, 1959, at 10:00 a.m.

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

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

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

Mr. Riefler, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Marget, Mitchell, Roosa, and Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account

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

Messrs. Ellis, Hostetler, Daane, and Tow, Vice Presidents of the Federal Reserve Banks of Boston, Cleveland, Richmond, and Kansas City, respectively
Mr. Einzig, Assistant Vice President, Federal Reserve Bank of San Francisco
Mr. Anderson, Economic Adviser, Federal Reserve Bank of Philadelphia

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Mr. Coldwell, Director of Research, Federal Reserve Bank of Dallas
Mr. Litterer, Business Economist, Federal Reserve Bank of Minneapolis
Messrs. Stone and Holmes, Managers, Securities Department, Federal Reserve Bank of New York

Chairman Martin noted a request by the Federal Reserve Bank of New York that Mr. Holmes participate in this meeting, and no objection was indicated.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on July 7, 1959, were approved.

Upon poll by the Secretary of the available members, the Federal Open Market Committee on July 16, 1959, authorized exchange of approximately one-half of the System Account holdings of \$8,143 million of Treasury certificates of indebtedness maturing August 1, 1959, into 4-3/4 per cent Treasury notes to be dated August 1, 1959, and mature August 15, 1960, and approximately one-half into 4-3/4 Treasury notes to be dated July 20, 1959, and mature May 15, 1964.

Chairman Martin commented that the Treasury was anxious to have a division of System Account subscriptions to assist in evening out the maturity schedule. As it developed, considerably less than one-half (\$2.6 billion) of the Account holdings of the August 1, 1959, certificates were exchanged into the May 15, 1964, notes.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the action taken by the Federal Open Market Committee on July 16, 1959, was ratified.

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Before this meeting there had been distributed to the members of the Committee a report of open market operations covering the period July 7 through July 22, 1959, and a supplementary report covering the period July 23 through July 27, 1959. Copies of both reports have been placed in the files of the Committee.

Mr. Rouse recalled that at the time of the July 7 meeting of the Committee the outlook for the U. S. Government securities market, and especially for the Treasury's financing activities, was markedly unfavorable. Rates for short-term issues were rising rapidly in the face of auctioning two successive special issues of Treasury bills, to be followed by the refunding of the August 1 maturities. In this atmosphere the System did what it could to help the Treasury by supplying reserves promptly to meet increased requirements resulting from the sale of the two issues to commercial banks on book credit. However, funds injected for this purpose were less than might have been expected, due in large part to a high level of float through the latter part of the period and to large sales by banks to their customers. Funds were supplied to a large extent on a temporary repurchase agreement basis. Outright purchases during the period totaled \$153 million, and no sales were made. New repurchase agreements were made in the amount of \$392 million but \$369 million were resold. The money market remained reasonably stable, though still tight, and with the development of a much improved atmosphere in the securities market no serious pressures emerged to require further open market operations.

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The average rate of 4.72 per cent on the auction of July bills was considerably higher than indicated by earlier estimates. Since there was little prospective nonbank demand for that issue, the necessary bank underwriting was effected at rates calculated to enable banks to stay with the bills for some time. However, the strong secondary market that developed for those bills seemed to demonstrate that an attractive rate will still bring out new funds, and it was interesting to note that considerable demand reportedly came from sources not ordinarily interested in Treasury bills. Even so, there was no avoiding a 4-3/4 per cent rate on the refunding. Once again, the rate proved to have a strong pull, both in the exchange and in the secondary market, with a margin of the same unusual type of buyers who purchased the July bills.

These operations, Mr. Rouse said, served to illustrate the weakness of borrowing too large an aggregate amount within a brief period on successive auctions. In such circumstances, the market tends to overdo its rate adjustment, with prejudicial effects on subsequent Treasury financing operations. Unfortunately, the Treasury felt it unwise to take the responsibility for setting a rate on the issues to be sold for cash.

In view of the successful refunding operation, the Treasury now believed it could get by without borrowing new money until the latter part of August, when a modest amount of funds would be required. The Treasury was now considering borrowing about \$1 billion

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at that time to meet its immediate needs, and also to anticipate some portion of its October requirements, thus reducing the size and the difficulty of the job to be done in October, an operation currently estimated at about \$4 billion or somewhat more.

Mr. Rouse reported that the atmosphere in the Government securities market currently was one of moderate optimism now that it had become apparent that the Treasury would not have to borrow as much in August as had been anticipated. In the background, there was the feeling that the upward surge of the economy might be tempered by the current steel strike. Consequently, investors and market professionals appeared to feel that rates had at least reached a temporary plateau, with no further upswing in prospect for the near future. Nevertheless, with offerings of bills of up to 90 days' duration to be had only at 3 per cent or less in the present circumstances, there was still a storm cellar attitude on the part of large investors.

Mr. Rouse noted that according to the staff memorandum on the outlook for member bank reserve positions distributed under date of July 24, 1959, the need for reserves over the next few months would be large. For the next three weeks, estimates indicated that in the absence of System action net borrowed reserves might reach close to \$750 million. The money market should continue tight, with borrowings from the Reserve Banks generally at a high level. Therefore, unless

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credit policy were to be more restrictive, further open market operations to supply reserves would seem to be in prospect.

Chairman Martin expressed the view that the Desk had handled the situation well in the past three weeks and that a difficult period had been weathered successfully.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period July 7 through July 27, 1959, were approved, ratified, and confirmed.

Supplementing the staff memorandum distributed under date of July 24, 1959, Mr. Young made substantially the following statement with respect to recent economic developments:

Economic expansion in the second quarter has proved to be more vigorous than earlier figures had indicated. Gross national product, measured in terms of prices, rose at an annual rate of \$13 billion to a total nearly \$50 billion larger than a year earlier. The increase over the quarter in physical volume amounted to about \$10 billion, so that there was \$3 billion of inflationary price rise, i.e., an annual rate of a billion dollars a month. Consumer spending took a near-record jump of \$7.5 billion after increasing to an average rate of about \$4.5 billion in the preceding four quarters. After declining in May, new orders for durable goods were up again in June; in fact, they were almost 50 per cent above their recession low. Thus, the backlog of unfilled orders resumed its rise.

Demand has been running strong in producer durable goods markets, as a result both of increased consumer spending and of rising business investment. Output of consumer durables rose at an accelerated rate in the second quarter in response to the unusually strong surge in consumer buying of new autos and household goods. Activity in business equipment lines has been moving up rapidly. Altogether--with nondurable goods lines also showing continuing gains from already record levels--the industrial

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production index rose in June to 155 per cent of the 1947-49 average. This level was 6 per cent above the 1957 prerecession high.

The steel strike, which began July 15, has reduced steel production very sharply to 13 per cent of capacity. While steel is an important item in industrial production, the momentum of expansion in autos and other lines (after seasonal allowances) is likely to provide a sufficient offset to permit the July production index to hold at or close to the June level. Continuation of the strike through August, however, would undoubtedly cause a decline of a few points in total industrial production.

Major secondary effects of a prolonged strike would not be expected to develop before September. Steel stocks held by manufacturers are very large and in most cases, particularly autos, ample stocks of finished steel products have been accumulated at the retail level.

Complete figures are not yet available on total June inventories, but the Council of Economic Advisers includes in its estimates of GNP for the second quarter a \$9 billion seasonally adjusted annual rate of inventory accumulation. This is almost \$3 billion greater than the first quarter accumulation, and it is the most rapid rate since 1951. Combined accumulation by metal fabricators and by auto dealers accounted for about two-thirds of the second quarter rise in nonfarm business inventories. Accumulation by auto dealers--and presumably also by manufacturers of metal products--continued through early July. Partly in anticipation of model changeovers ahead, domestic auto stocks were boosted to a new high of 945,000 on July 20. This is almost two-fifths larger than at this time in most other recent years.

Acceleration of the auto sales rate, on top of strong consumer demands for goods and services generally, led in June to expansion in consumer instalment credit outstanding at an annual rate of \$5 billion, nearly as rapid as in 1955 when the peak quarter approached a \$6 billion rate. Instalment credit extensions have increased more rapidly than disposable income, and the ratio of extensions to income in June was close to the previous monthly record established in 1955. The ratio of repayments to income, however, is still below earlier highs.

Construction activity continued close to peak levels in June. New housing starts held at a seasonally adjusted annual rate of 1,370,000, and the total for the first half of the year nearly reached the record attained in 1950. Pressures of the exceptionally heavy volume of home financing

have been reflected in some further increases in mortgage interest rates--on conventional mortgages to 5.8 or 5.9 per cent. Reflecting in part the recent marked increase in the volume of completions, the Census Bureau sample survey found that the over-all residential vacancy rate rose to a postwar high of 3.2 per cent in the second quarter, as compared with 2.9 per cent in the first.

Buoyancy in consumer markets in recent months stems partly from an acceleration in employment recovery and the accompanying rapid growth in wage and salary income. Seasonally adjusted nonfarm employment increased 200,000 in June and about 2 million from a year ago. More than half of the latter rise took place since March. Unemployment continued in June at the 4.9 per cent seasonally adjusted rate reached in May. Total personal income in June reached a new record seasonally adjusted annual rate of \$383 billion, as wages and salaries expanded further while other types of income changed relatively little. Average hourly earnings at factories were 5 per cent above a year earlier while weekly earnings, owing to longer hours, were 9 per cent above.

Average wholesale prices of all industrial commodities have continued to mark time in July, at a level 2-1/2 per cent above the spring of 1958, although price advances have continued for some sensitive industrial materials. The latest consumer price index--for June--showed an abrupt rise of .4 per cent, as a temporary run-up in retail food prices gave an extra fillip to the slow uptrend of prices of most services and many nonfood items in evidence in recent months. Lower retail food prices are in prospect. In the face of large current and prospective supplies, wholesale prices of farm products have declined 2 per cent since mid-May to a level 7 per cent below a year ago.

Our foreign trade balance appears to be improving moderately. Exports have been increasing somewhat, and according to estimates of the National Foreign Trade Council they may be at an annual rate of \$17 billion by the end of this year, as compared with just under \$16 billion in May. Imports, meanwhile, have been showing signs of stabilizing at the record annual rate of nearly \$16 billion reached in May. While further increases in imports of manufactured products may reasonably be expected, imports of some materials recently at very high levels are likely to fall off. It is interesting to note that one-sixth of the total increase in imports over the past year was accounted for by a nearly threefold increase in steel imports, and this partly reflected precautionary buying against the present strike.

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Rapid expansion of economic activity is continuing in Western Europe. Of particular importance is the fact that capital expenditures are rising, and growing demands abroad will soon be impinging more heavily on foreign production of materials.

Mr. Thomas made the following statement with respect to financial developments:

Financial developments in July were dominated by Treasury financing operations. Perhaps, however, as a result of the large volume of new funds raised by the Treasury and the new high level of interest rates that was reached in the process, the task of Treasury financing in the next few months may be less formidable than it appeared a few weeks ago. For the same reason, the problem of monetary policy may be lightened somewhat.

The \$5 billion of new cash raised by the Treasury through two bill offerings and the refunding of \$14 billion of maturing issues were massive operations. Difficulties and uncertainties connected with the earlier operations resulted in a sharp rise in rates to the high level of $4\frac{3}{4}$ per cent for a one-year issue. This rate, however, attracted funds from widespread sources. As a consequence the refunding offer at $4\frac{3}{4}$ per cent on both a 12-1/2 month issue and a 4-year, 9-month issue was a tremendous success with an unusually low attrition. This reduces the amount of prospective new financing far below the amount that was expected to be needed in August, and maybe in later months as well. The tone of the market has improved and yields on very short-term issues showed a pronounced decline that eliminated most or all of the increase earlier in the month. Rates from six months to five years are still higher than a month ago. Long-term rates, which had shown little previous rise, declined only slightly in the course of July.

New capital issues by both State and local governments and by corporations have been smaller in July than in any month since last August, reflecting in large part seasonal influences. Pressure on the Government securities market was thus relieved somewhat by this small volume of new issues and also by investment of the proceeds of previous issues. Mortgage demands, however, continued heavy and interest rates on mortgages are approaching the 6 per cent level.

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Banks aided Treasury financing by substantial increases in their holdings of Treasury bills and in loans on Governments in the first two weeks of July. Partial figures for city banks indicate marked declines in these items in the third week of July. City banks continued to reduce their holdings of Treasury certificates, notes, and bonds. The increase in loans on Government securities was partially offset by a decline in other loans to brokers and dealers in securities, but business loans, loans to financial institutions, real estate loans, and consumer loans continued to increase moderately. In the same period of other recent years, business loans and finance company loans have generally declined.

The money supply, seasonally adjusted, declined slightly in June, following little change in May. Partial figures for the four weeks since June 24 show an increase which may have been somewhat greater than seasonal. In general, however, it appears that the money supply growth has leveled off in recent months. Time deposits declined slightly in July. U. S. Government deposits at banks increased sharply in the first two weeks of July, in connection with Treasury financing, but began to show a decline in the third week. In the past year city banks have shown a pronounced decline in interbank deposits--both demand and time and including those due to domestic, as well as to foreign, banks.

Member banks have needed additional reserves in recent weeks to cover the increase in required reserves associated with Treasury financing and also a larger than usual holiday currency demand, followed by a smaller than usual return flow. Float declined more than expected in the early weeks of the month but then increased more than usual. Reserves were supplied through System open market operations, which included an increase of about \$500 million of outright holdings since late June and a continuous volume of repurchase contracts that varied from below \$50 million to as much as \$175 million on one day. Member banks as a group have been rather heavy borrowers both at the Reserve Banks and through Federal funds. Borrowings at the Reserve Banks have averaged close to \$1 billion, and all classes of banks have participated in these borrowings. There has continued to be some tendency for banks to build up reserve surpluses through heavy borrowings early in the statement week and to have excesses toward the end of the week.

Pressures on credit markets may be somewhat lighter in August and September than has been the case in recent months. Treasury financing demands will be relatively small, unless some later needs are anticipated, and the Treasury's deposit

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balance will generally be declining or at a low level. The new issues calendar also promises to be light for awhile. Business borrowing at banks should decline--or at least increase less than usual--as steel and related inventories are reduced and as automobile dealers work down their very large stocks of new cars before new model introductions. By October, however, assuming settlement of the steel strike, credit demands may be expected to increase.

According to the usual seasonal pattern, there should be little need for additional reserves until the end of August. Temporary variations might be covered through repurchase contracts. Early in September reserve needs will increase somewhat, with a further increase in October, particularly at the time of Treasury financing. Additional reserves of about \$300 million will presumably be supplied at some time in the next few months through purchases of bills by the International Monetary Fund from the proceeds of gold sold back to the Treasury. The timing of these operations is uncertain and no allowance has been made for them in the projections presented. These are likely to offset the gold outflow of \$25 million a week assumed in the projections for three months, beginning probably in September. This would reduce the need for System operations.

As for the policy direction in coming weeks, it is probably reasonable to conclude that the present degree of restraint is adequate. As Treasury tax and loan accounts are reduced and funds are shifted to private holders, banks should be under pressure to make adjustments so that there will not be an undue increase in the private money supply on the basis of reserves that were provided temporarily for Treasury finance. This process will be completed in the next two or three weeks. The current level of borrowings should provide all the restraint needed, and there may be some doubt as to whether an increase in discount rates is needed until there is evidence of undue credit expansion.

At the request of the Chairman, Mr. Marget made the following comments with respect to the United States balance of payments and certain proposed investment transactions of the International Monetary Fund:

When I first spoke at these meetings on the subject of our balance of payments, I suggested that what mattered about our balance-of-payments deficit was not so much the absolute

level of that deficit as the direction in which it seemed to be moving. On that basis, I suggested, we could hardly afford to ignore the fact that in 1958 our over-all balance-of-payments deficit was at least twice as large as the average deficit of the years preceding.

It would be very gratifying to be able to report that our balance-of-payments position looks better now than it has looked at any time since I made that remark. Unfortunately, it looks worse. It is true that gold movements give no indication of a deterioration. But the reason for this is that in the second quarter of this year, for example, only one-third of the total transfers of gold and dollars to foreign countries (that is, one-third of our over-all deficit with those countries) took the form of gold transfers, whereas in the second quarter of 1958, when our gold outflow reached a record level, the transfer of gold to foreigners covered virtually the entire balance-of-payments deficit. The simple fact is that, as against the \$3.4 billion over-all deficit that we incurred last year, projections now being made for our balance-of-payments deficit in 1959 run to around \$4.5 billion; and, since our balance-of-payments performance earlier this year had been such as to lead us to expect a balance-of-payments deficit of about the same size as last year, this means that these projections imply, for the second half of this year, a seasonally adjusted annual rate of \$5 billion. Whatever else one can say of projections like these, they can hardly be said to indicate the kind of change in direction in our balance-of-payments deficit for which we had been hoping.

When I first spoke to this Committee on the subject, I suggested also that of the two possible ways to work toward a balance in our international accounts--a balancing downward or a balancing upward--it was only the latter that could be regarded as the right way of doing it; and that this meant, basically, that we had to count primarily on an increase in our exports to effect the balance. One sometimes hears it said that, desirable as this might be, it fails to do justice to the fact that, after all, we have had, during the past year, an accelerated upswing in imports. But the fact is that even during the second quarter of this year, when imports increased markedly, total merchandise imports were still no more than 3.2 per cent of GNP. Over the past half dozen years this ratio has crept up only slightly. Cyclical swings brought it down from 3.0 per cent in 1953 to 2-3/4 per cent in 1954, and up to 3.1 per cent in late 1955 and early 1956. By the first half of 1958 it was down to 2.9 per cent, and now, as I have said, it is up to 3.2 per cent, or one-tenth of one

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percentage point higher than at the end of 1955. This means that the growth of imports from 3-1/2 years ago has exceeded an amount proportionate to growth of GNP by no more than half a billion dollars, as against an increase in the balance-of-payments deficit from around \$1.5 billion to the \$4.5 billion projected for 1959.

Moreover, we can hardly ignore the salutary effect of imports on pricing policy and competitive practices generally in the United States. It is difficult, for example, to dissociate the recent price reductions in the field of heavy electrical equipment (large steam turbine generators) from the foreign competition that our producers have been experiencing in that field. For it is on our ability to compete both abroad and at home that the future of our balance of payments is going to depend. The turn in our balance of payments for which we are hoping will undoubtedly be greatly helped by the revival of economic activity abroad, which is going ahead, and by the removal of discriminatory restrictions against U. S. goods, which is also going ahead, although not as rapidly as some of us would like. But the "help" these developments will provide will be help in the form of an opportunity to sell our goods abroad. Whether we succeed in selling them will depend thereafter on our ability to compete, and on that alone.

I am very anxious not to seem to be trying to make our balance-of-payments problem more serious than it really is. I wish to report, therefore, that we received yesterday morning the Census Bureau's release on its preliminary estimate of U. S. exports in June, and that they show, for the first time in months, a sharp rise in our exports. Unfortunately, we have no details as to the nature of this increase, either as to the commodities or the countries involved. It is barely possible (though by no means certain) that this may be the turn in our exports for which we have been hoping. But even if it proves to be just that, it is quite clear that we still have a very long way to go before we get our foreign accounts into balance; and that whether we succeed in doing so will continue to depend overwhelmingly on the extent to which we can keep ourselves competitive.

With respect to the transactions of the International Monetary Fund, you may recall that in January 1957 the Fund inquired informally, through the U. S. Executive Director, as to whether the System would perceive any objections, from the standpoint of its responsibilities with respect to monetary policy, to the Fund's selling \$200 million of gold and investing the proceeds thereof in U. S. Government securities.

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In a letter dated January 8, 1957, to Frank Southard, U. S. Executive Director of the Fund, Mr. Riefler, on behalf of the Open Market Committee, wrote as follows:

"At the conclusion of the discussion of the question which you raised, the Federal Open Market Committee agreed that it would express no views to the International Monetary Fund with respect to the form in which the Fund chooses to draw upon its resources. This action was taken to preserve the utmost freedom to the International Monetary Fund in meeting its problems and in the hope that the Fund will inform the Federal Open Market Committee in advance of its operations in the American market."

Recently the Managing Director of the Fund proposed that in the light of the increase in the Fund's resources, and what the Fund's management believed to be required thereby in the way of reserves, the Fund should sell an additional \$300 million, to be invested also in Government securities. On July 24, 1959, the Executive Board of the Fund voted to carry out this proposal. It is worth noting that in the discussion in the Fund Board it was repeatedly made clear that the operation would be effected in close coordination with System authorities. The U. S. Executive Director, for example, stated that the Federal Reserve authorities "would wish, as before, to be kept informed as to the timing of the investment and as to any change in investment portfolio, so as to be able to take any necessary action with respect to the money market or to make any appropriate comment to the Fund at such times." Similarly, the Executive Director for the Netherlands quoted the statement made by the U. S. Executive Director in 1957 "as to the right of the Federal Reserve authorities to express a decisive view on the management of the Fund's investment in the U. S. money market." He agreed with the Canadian Executive Director "that at any time Federal Reserve authorities raised any question the Fund should be prepared to let the investment run off." Mr. Southard, the U. S. Executive Director, has made it very clear to the Board's staff that the Fund would welcome any suggestions the System might offer on any of the technical aspects of the operation, such as the timing of the investment operations, and also as to the distribution of the investment among various maturities of securities up to one year.

With further reference to the investment program of the International Monetary Fund, Chairman Martin noted that the New York Bank,

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which had raised certain questions regarding the original transactions in 1957, also had questions with respect to the current program. He then turned to Mr. Hayes for a further statement on the matter.

Mr. Hayes said that when the earlier transactions were undertaken the Fund was clearly running in the red and that was given as a reason for making the move. Now, however, the picture had changed. Although it was argued that the Fund should have larger reserves, the need was substantially less than it had been. Therefore, in the present atmosphere of apprehension throughout the world about the gold situation, questions might be raised by foreign central banks and foreign governments as to whether the contemplated transactions were being undertaken as much to help the Fund's earnings as to help maintain the gold stock of the United States. While the possibility of such questions being raised had been borne in mind constantly by the United States Executive Director on the Fund and efforts had been made to couch the proposal purely in terms of Fund benefits, Mr. Hayes said that he continued to have a somewhat uneasy feeling. He noted that an integral part of the proposal was a specific agreement on the part of the Treasury to resell gold to the Fund and that, from the standpoint of the Fund, the legality of proceeding under such an agreement appeared somewhat questionable. Mr. Hayes doubted, however, whether this was an area where it was within the province of the System to intervene too strenuously.

Chairman Martin stated that the points raised by Mr. Hayes had been passed along to the Secretary and the Under Secretary of the

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Treasury. He understood Mr. Hayes had also talked to the Treasury, and Mr. Marget had presented the points to the National Advisory Council on International Monetary and Financial Problems. It was his belief, the Chairman said, that these matters were primarily the responsibility of the Treasury and the Fund, and not the System.

Mr. Rouse commented that he and Mr. Thomas had discussed what advice might be given to Mr. Southard as the best way, from the System standpoint, for working the Fund transactions in gradually. Mr. Thomas added that Mr. Southard, when he called to ask for suggestions, indicated that the Fund would be willing to buy six-month and one-year bills as well as three-month bills.

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

Almost all recent data continue to reflect rapid economic growth. Even with a steel strike of relatively long duration, the present momentum of economic recovery will almost certainly continue to carry the economy higher through the balance of this year and well into 1960, although production and employment statistics will weaken briefly this summer because of the strike. Housing starts and the rate of inventory accumulation, while unlikely to show much further growth, are being well maintained at a high level. I would expect higher consumption, especially in durables, to provide added stimulus over the remainder of 1959, and business plant and equipment expenditures seem to be in an upward phase which should pick up speed in late 1959 and 1960.

As Mr. Marget has pointed out, one serious problem accompanying the expansion in business has been the worsening balance-of-payments situation. Preliminary figures for the second quarter show no improvement over the first quarter; and it now looks as if the total accumulation of gold and dollar assets by foreign accounts in 1959 will be something over \$4 billion as compared with \$3.4 billion last year.

The price outlook likewise affords no grounds for complacency. In spite of relatively steady wholesale prices, the consumer price index, which failed to decline in the recession, is again moving higher. The increase in June may be no more than seasonal, but there has been a rather steady uptrend of prices for services and most manufactured goods, which for a time was obscured by falling food prices. Of course, the pattern of negotiations in the steel and aluminum industries gives ground for hope that the ultimate wage settlements in these areas will not provide further upward impetus to prices. Such an outcome would be of inestimable value in checking inflationary developments throughout the economy.

While the success of the latest Treasury refunding was very gratifying, Treasury finance will continue to be a troublesome problem for the rest of the year. However, as Mr. Thomas has pointed out, the problem does not seem as formidable now as it did three weeks ago, before the highly successful Treasury refunding. We estimate that about \$7.5 billion of new money will be required between now and December, with the first portion of this cash financing probably to be announced within the next two or three weeks.

Demand for bank credit continues heavy, although the rise in total loans at all commercial banks in June was less spectacular than in April and May. The growth in business loans in June was not as great as in 1956 or 1957, but consumer and real estate loans continued to increase sharply. Unfortunately the data on the weekly reporting banks for the first three weeks of July are hard to interpret because of newly introduced changes in the method of reporting without comparable figures for earlier years. However, loan demand apparently has continued strong. There was further sizable liquidation of bank-held securities in June, resulting in virtually no change in the seasonally adjusted money supply. The increase in the money supply in the first six months was at an annual rate of only 2 per cent.

Continuation of the present degree of monetary restraint appears to me to be amply justified by the generally strong business picture, the strength of credit demands, the need to keep the Treasury's seasonal deficit financing in the next few months from swelling the money supply unduly, the continued threat of unsound wage and price trends, and the failure of the balance of payments to show any improvements. On the other hand, we must recognize the major element of uncertainty injected into the immediate business outlook by the steel strike. It remains to be seen whether a prolonged strike may

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have unexpectedly damaging effects on the economy or whether it may lead to a rush of ordering and restocking which would set off an unusually rapid forward spurt in over-all activity.

We must also recognize, I think, the very delicate situation in which the Treasury and the Federal Reserve System find themselves in the light of the current discussions concerning the ceiling on Treasury bond rates. I would think it unwise to intensify monetary restraint under these circumstances, and in fact doubts as to the proper degree of restraint should generally be resolved on the side of ease. The directive and the discount rate should be left unchanged.

Looking ahead, we shall be faced with the need for maintaining an "even keel" policy during some period in August, possibly commencing before the next meeting, if the Treasury goes through with its present cash financing plans. Thereafter, we shall have an opportunity to review the whole discount rate question in the light of such factors as developments in the steel industry, the pressure of seasonal credit demands, and the level and trend of short-term market interest rates, which have shown such a dramatic, if perhaps temporary, decline in the last week or two.

Mr. Johns said he found no reason to disagree with the conclusion of Mr. Hayes, which was also suggested by the statement of Mr. Thomas, that in the interval until the next meeting of the Committee the Management of the Account should attempt to maintain about the same degree of restraint as had existed recently. To go beyond that degree of restraint seemed to Mr. Johns to be unnecessary at this time. However, he felt that the System might have work to do this autumn.

Mr. Bopp reported that steel operations in the Philadelphia region dropped to 15 per cent of capacity in the latest week, and Pennsylvania State authorities estimated that about 150,000 steel workers were out of work in the State. They had estimated that about 14,000 coal miners, factory workers, railroad employees, and store clerks would be laid off in the first week of the strike, with the

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figure increasing to 18,000 in the second week. Likewise, it was estimated that a one-month strike would cost the State \$300,000 in relief funds, while a six-week strike would cost \$800,000. Thus far, however, the strike had had only limited secondary effects in the district. Generally speaking, the district economy was strong.

As to policy, Mr. Bopp said he would agree essentially with the views expressed by Mr. Johns. He would favor continuing the present degree of restraint for the next three weeks but, like Mr. Johns, he felt that the System might have its work cut out for it later on in the year.

Mr. Shepardson stated that he did not disagree with the comments made thus far. The uncertainty occasioned by the steel strike seemed to him to call for some pause from the standpoint of considering any change in the direction of System policy. On the other hand, general prospects for the months ahead suggested that the System should maintain a tight rein. In summary, he would agree with what Mr. Hayes had suggested.

Mr. Robertson said that on the basis of the facts and judgments expressed by Messrs. Young and Thomas and the reasons set forth by Mr. Hayes, he would come to a different conclusion. While he would not seek a real tightening of policy in the next few weeks, he would consider it a serious mistake to ease. As he read the information before the Committee today, the reserve position of banks would tighten if the System did not take offsetting steps, and in his judgment the

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tightening should be offset as little as possible. He would try to maintain the degree of restrictiveness that the System had been seeking to achieve and would resolve any doubts on the side of greater restrictiveness rather than less. The steel strike, if it should continue, might provide reason for a different course of action policywise, but he felt that any easing at this time would represent a major mistake. He would not favor a change in the discount rate or in the policy directive at this time.

Mr. Mills stated that his reasoning ran parallel to that of Mr. Hayes and others who had spoken in the same vein. He was impressed by the comments of Mr. Thomas regarding the advantage the markets had been able to obtain through the lull in capital financing. Beyond that factor, he would like to probe back into other areas of activity affected by System policy and on the influence of that policy since the last meeting of the Committee. Mr. Mills then read the following statement:

The period since the last meeting of the Open Market Committee has seen material strength develop in the short-term sector of the U. S. Government securities market and also a trend toward price stability in the long-term sector. The improved tone in the U. S. Government securities market can be traced to the moderation that has occurred in the pressure against the reserve positions of the commercial banks. The fact that the long-term sector of the market has not revealed as much strength as the short-term sector possibly is due to suspicion in the investment fraternity that Federal Reserve System policy will in due course become more severely restrictive in character.

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There are good grounds for belief that continued moderation in the degree of restraint exercised by Federal Reserve System policy over the expansion of commercial bank credit will be adequate to contain such inflationary pressure as now exists. To the extent that this belief should be shared by the full Open Market Committee, an opportunity is now offered to capitalize on the improved tone of the U. S. Government securities market by refraining from allowing any increased pressure to be brought against commercial bank reserves. The market reaction to this kind of policy in a real sense should allow the "bills only" theory to find concrete expression by way of transmission of a lower yield trend in the short-term sector on to the long-term sector of the U. S. Government securities market. The greater stability in the prices of long-term U. S. Government securities that would ensue might be expected to rejuvenate confidence in the investment attractions of longer-term U. S. Government securities and thereby give added strength to that market. A better tone to all sectors of the U. S. Government securities market could do much to dissipate the acrid controversies that have arisen within and without Congress as to the relationship between Federal debt management and monetary policy.

The mechanical operation of the kind of policy envisaged would conceive maintaining a degree of pressure on commercial bank reserves only sufficient to force a gradual, as contrasted to a hurried, divestment by the commercial banks of recently acquired U. S. Government securities as they are confronted with the necessity of finding room within the structure of their resources in which to meet the legitimate seasonal borrowing demands of their customers. The projections that have been made of movements in the volume of reserves over the next several weeks indicate that the commercial banks would be subjected to undue pressures if they were compelled to meet their loan demands entirely by the substitution of loans for U. S. Government securities and, accordingly, it seems to be necessary for the System to supply the commercial banks with a marginal volume of new reserves in the weeks to come. The provision of additional reserves will also be necessitated if appropriate disciplinary action is taken by the Federal Reserve Banks against their continuous member bank borrowers, the retirement of whose discounts, in response to admonition, would remove the availability of a substantial core of reserves on which the credit operations of the commercial banking system have come to depend.

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Mr. Leach reported that the major sectors of the Fifth District economy had registered further gains. Manufacturing man-hours worked in June in both durable and nondurable industries continued the steady expansion apparent since the first of the year. Textile mill order backlogs and inventories continued favorable and the industry was reportedly in its strongest position in many years. Spokesmen were even optimistic that the industry might be overcoming its long-standing overcapacity problem. Construction employment rose last month to a new high for the year, while department store sales in June equaled May and the indicated July figure was an all-time high. These gains in activity were not reflected in nonagricultural employment which, seasonally adjusted, held at approximately the May level.

Loan demand at district banks continued very heavy, Mr. Leach said, with the weekly reporting member bank loan increases paralleling the rapid expansion in 1955. Loans were increasing in spite of the fact that member banks in the district were under considerable pressure because of a combination of factors, including high loan-deposit ratios, substantial depreciation in Government securities, withdrawals of deposits for investment in Government securities, and warnings from the Reserve Bank in regard to continuous borrowing. Some banks had disposed of Governments at a loss, but daily average borrowings from the Reserve Bank were still near the six-year record level reached in June.

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Mr. Leach mentioned having been informed by bankers that the recently available yields on Treasury bills had caused even smaller corporations and some individuals to cut down their bank balances, while treasurers of the larger corporations appeared to be sharpening their pencils even further. Some companies were reported to be sending out invoices with the request that remittance be made to a designated post office box number in Richmond or some out-of-district point, from where the funds were transmitted to purchase Treasury bills and save one day in the process.

Mr. Leach expressed agreement with what was said in the staff report about the vigorous expansion that had taken place in the economy and felt that it called for continuing a tight rein on credit. He noted that the strengthening in the Government securities market and the Treasury's improved cash position and nearby outlook apparently provided an opportunity for greater freedom of System action over the next two months. The degree of pressure now being exerted on banks and the uncertainties surrounding the steel strike made him think it would not be desirable to increase the discount rate at the moment or to increase the degree of restraint that had been maintained.

Mr. Leedy agreed that this was a period when the System should engage in watchful waiting. The economic picture, the steel strike, and the change that had occurred in the Government securities market all indicated to him that for the moment the System should mark time. In the next three weeks he would undertake to deviate as little as

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possible from what had been done in the last three weeks, with no intent to increase further the pressure on reserves.

Mr. Allen commented as follows with respect to developments in the Seventh District:

I will try to refrain from repeating the content of the Board's excellent memorandum on business conditions and will confine myself to comment on the steel and automobile situations in the Seventh District.

The Chicago area accounts for 18 per cent of the nation's steel capacity. The mills on strike include all but 5 per cent of the capacity in our area, the principal unit still in operation being the Wisconsin Steel Works of International Harvester. In Detroit the Ford Steel Plant, which produces 50 per cent of Ford's own needs, is still in operation. The immediate effect of the strike in the Chicago area is that 75,000 steel workers are out (the 90,000 quoted in the press includes supervisory and other persons who remain on the payroll). In addition, about 10,000 transportation workers have been furloughed because their services are not needed when the steel plants are idle. Thus, less than 4 per cent of the employment of the Chicago area is involved so far. In Detroit 15,000 steel workers are on strike, a little more than 1 per cent of total employment there.

Speaking generally, it appears that there is about a two months' supply of steel on hand, although the situation varies greatly from firm to firm with the large, well-financed concerns in the best supply situation. The auto industry and its suppliers have enough steel to complete their 1959 models and to begin the 1960 model run, with Ford in the best position because of its own steel plant. Parenthetically, automobile production in July is likely to be around 525,000 and to drop in August to around 250,000 as many makes complete their 1959 run. The new models produced in September should total about 260,000, with enough steel on hand to just about make that figure.

We have endeavored to secure information on the new compact cars and are told that the suggested retail price of the Chevrolet Corvair will fall below \$2,000 and probably not more than \$1,800 - f.o.b. Detroit. Accessories such as automatic transmissions will be extra. Chevrolet expects to lose 20 per cent of the normal market

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for its regular cars to the new small car. They think that the Corvair, the Ford Falcon, and the Chrysler Valiant will knock 25 per cent from the peak import figures of perhaps 550,000. If they are right, imports would level off at around 400,000 annually. Chevrolet will shoot for daily production of 1,440 Corvairs (against 7,200 regular Chevrolets) and hopes to reach that figure by December. They expect to build 330,000 of the Corvairs in the 1960 model year. Ford and Chrysler are shooting at somewhat lower figures, possibly 175,000 each in the 1960 model year.

Sources in Detroit feel that the steel strike has overshadowed the possibility of a strike in aluminum, and there is at the moment much scurrying around for aluminum because shortages of that metal could have serious implications for auto manufacturers. The new Chevrolet car will have an aluminum engine and the Chevrolet plant at Massena, New York, takes molten aluminum from an adjoining Reynolds Aluminum Plant, which makes accumulation of aluminum impossible. Ford has a similar arrangement with Reynolds in Alabama.

Demand for credit in the Seventh District, particularly by business, remains strong. Loans to business by District reporting banks (on the new reporting basis) rose \$60 million in the two weeks ended July 15, with increases broadly based over most classes of borrowers. Chicago banks showed an additional \$20 million gain in the week ended July 22. In both 1958 and 1959 these loans dropped sharply during July.

Holdings of U. S. Government securities by reporting banks rose sharply as acquisition of bills and certificates were offset only in part by sales of longer maturities. However, Chicago banks reported a net increase of only \$60 million in Treasury bills from July 1 to 15, compared with acquisitions of over \$700 million by New York banks. In the week ended July 22, Chicago bill holdings dropped \$41 million. While loans and investments of reporting District banks expanded, deposits also rose. As a result, additional pressure on reserve positions of District banks was moderate and was concentrated mainly outside the Chicago market. The two largest banks have been net sellers of Federal funds and have not borrowed at the discount window for several weeks. Seventh District country banks show relatively the greatest reserve pressure, with the volume of borrowing by such banks now higher than it was two years ago at the peak of the 1957 tight money period.

Mr. Allen expressed the view that the current degree of restraint should not be varied in the next three weeks. At last week's meeting of

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the Chicago Bank's directors, he said, some feeling of restiveness with respect to the discount rate was evident on the part of a minority of the directors, reflecting the view that the System had an inflationary situation to deal with and should move as soon as possible. Mr. Allen said he had no difficulty in persuading the directors that this would not be an appropriate time to move on the rate. Neither did he think such action would be appropriate in the next three weeks, but there was some feeling that the System ought to be doing something.

Mr. Deming stated that with two important qualifications the general economic picture in the Ninth District was brightly colored. Most economic indicators now equalled or exceeded the 1956-57 peaks, some showing substantial gains over the previous boom figures. The two important qualifications had to do with iron mining and agriculture. The moisture situation remained critical over large sections of the district and July 1 crop estimates indicated substantial declines in 1959 output of most important district crops. Relative to 1958, winter wheat output was estimated at 37 per cent lower, and spring wheat at 26 per cent less. Soy bean production would be down about 29 per cent and most other major crops showed up no better, the only important exception being that corn production was estimated at 31 per cent higher than in 1958. Pasture growth and hay yields were poor in the Dakotas, but adequate to plentiful in Montana. Cattle and calves on feed in Minnesota and South Dakota were, on July 1, 13 and 12 per

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cent higher than a year earlier, a somewhat greater gain than registered in the other major feeding States.

Mr. Deming felt that the steel strike might prove to be quite serious in its impact on the Ninth District. About 31,000 iron miners and lake crewmen were idle, with weekly pay roll losses of \$3.5 million. While the strike apparently was highly unpopular in the iron industry, the feeling seemed to be growing that it would be a long strike and that its effects on the iron ranges would be severe. By last week, 40 iron ore carriers were anchored in the Duluth-Superior harbor and the vessel captains had ordered their crews home. Following settlement of previous strikes, mining and shipping activity snapped back quickly, but with rising ore imports there was fear that this would not take place in the Lake Superior region this year, particularly if the strike was of long duration.

District banking statistics, Mr. Deming said, continued to show rising loans and declining bank liquidity. At mid-July, city bank loans were 17 per cent higher than a year earlier and country bank loans were up 12 per cent. While seasonal deposit gains had been evident recently, they had not been sufficient to match loan growth, so that loan-deposit ratios continued to rise. For city banks, the June ratio was above 56 per cent, higher than at the 1957 peak.

Turning to policy questions, Mr. Deming said it seemed to him the record of economic expansion argued that Federal Reserve

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policy had been reasonably good and that it could hardly be characterized as unduly restrictive to date. Nevertheless, he was becoming somewhat concerned about the effects of policy in the future. The substantial slowdown in money supply growth, the rising velocity rate, the bank liquidity picture, and, most particularly, the falling ratio of the money supply to gross national product suggested to him that any further restrictiveness would be unwise at this time. As a matter of fact, if agreement could be reached on what represented normal seasonal requirements, he would like to see reserves supplied over the next several months to cover those requirements, plus some allowance for growth, with further restrictiveness if demands should exceed such requirements. He saw no need to change the directive at this time or to act on the discount rate in the immediate future.

Mr. Mangels said that for reasons already expressed by others, it was his conclusion that there should be no increase in restraint at this time. He would have in mind maintaining net borrowed reserves in the range of \$300 to \$500 million.

With respect to the Twelfth District, Mr. Mangels said the lack of firmness of some areas of the economy that he had mentioned at the July 7 meeting still existed. While total employment was up and unemployment in California had dropped to 4.1 per cent, somewhat below the national average, unemployment had risen to 6.8 per cent in

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Oregon and 7.3 per cent in Washington, due in some measure to cutbacks in the production of lumber and metals along with the fact that industries were not expanding fast enough to absorb increases in the labor force. Heretofore, defense-related industries had been a strong spot, but in that category there now appeared to be a leveling off of employment. In California, agriculture was a little above average, but in other States it was barely holding its own in comparison with last year. Farmers' bank debt, other than real estate debt, was now about 25 per cent above 1958, production credit loans were in excess of last year, and processors' advances on crops likewise were higher. As to residential construction, only one State, Oregon, showed an increase in June in comparison with May.

Mr. Mangels reported that Twelfth District banks were becoming quite firm with potential borrowers. Two of the larger banks in the San Francisco area had stopped making veterans' loans on housing and they no longer were making advance FHA commitments to builders. Bank loans were up moderately in the past three weeks, along with demand deposits, but total time deposits were down. Savings deposits showed an increase, so the decline in total time deposits resulted primarily from other time deposit money going into short- and intermediate-term Government securities. Borrowings from the Reserve Bank were down slightly during the past two weeks; last Thursday, nine banks were borrowing a total of \$61 million. Purchases and

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sales of Federal funds in the past week were about in balance, but this week district banks were expected to be net purchasers to the extent of perhaps \$250 million.

Mr. Mangels felt that the policy directive was satisfactory in its present form. He expressed the view that consideration of the discount rate could be deferred until the next meeting of the Committee.

Mr. Irons reported that the Eleventh District picture was one of general strength, with high level activity, except for the continued problem in the petroleum industry. Allowables in Texas were still set at nine days, the same as in June, product stocks were still high, and in general the picture in petroleum was about as it had been. On the other hand, retail trade, employment, construction, and other areas of activity were at high levels. The banking situation continued about as it had been over the past three to six weeks, with a very strong demand for credit. Some bankers had indicated that they were being more selective in the extension of credit and one or two referred to this as "putting our houses in order." Borrowings from the Reserve Bank were running somewhat higher recently, although not too much above three weeks ago. Some tendency was noted for banks to borrow on Friday and for borrowings then to taper off heavily during the first part of the succeeding week. Borrowing was mostly by city banks, with country banks borrowing only in small numbers and for seasonal purposes. There continued to be some discussion about withdrawals of certificates of deposit as the result of the Treasury bill

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rate, with bankers probably divided about evenly in opinion as to whether they would like to be able to pay a higher rate on time deposits. In short, while the banks did not seem to be a great deal tighter in their reserve positions than they had been, it appeared that they were being a little more selective and careful in their lending policies.

Mr. Irons said that he would favor no change in the discount rate or in the policy directive at this time. If the Account Management could administer open market operations during the next three weeks in the same manner as during the past three weeks, he felt that this would be just about right. He would not actively seek greater restrictiveness and instead would attempt to maintain about the same degree of restraint as now being imposed. If there were deviations-- and he hoped that there would not have to be--he would be inclined to let them fall on the side of less restraint.

Mr. Erickson stated that the First District economy reflected pretty much the national pattern, except that in some sectors the pace of activity was not as strong. The latest survey of 80 mutual savings banks showed that in June deposits were still running better than 6 per cent ahead of last year. New deposits in June were more than 11 per cent ahead of last year, but withdrawals were almost 20 per cent greater. Some reports were heard concerning the withdrawal of deposits for investment in Treasury issues. While banks indicated that their

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position was very tight, borrowings at the Reserve Bank discount window during the first 24 days of July were at a rate equal to only half the daily average in June, this being true both in the case of Boston and other member banks. During this period, borrowings at the Reserve Bank were less than 2.5 per cent of the System total, whereas they were running higher than 5 per cent of the total in June. It might be that the banks were using Federal funds to a greater extent than in June.

Mr. Erickson said that he saw no reason for changing the policy directive or the discount rate at this time. With respect to the operation of the Open Market Account, he found himself in agreement with Mr. Hayes.

Mr. Balderston said that in the main he agreed with the policy suggestions that had been made around the table, but only because he saw nothing else to do during the interval until the next Committee meeting. His concern stemmed from the fact that the boom was again feeding the urge to borrow and to speculate. In time, he supposed that price pressures from things produced in other countries might dampen the speculative urge, but he saw too many evidences of a repetition of the 1955-56 period to leave him comfortable.

Mr. Balderston suggested that the System ought not again fall into the policy adopted in the middle of 1956 when a steel strike was in progress. As he recalled his own state of mind, it was that he did not know how long the strike would last, how many people would

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be out of work, or what the secondary effects might be, and these uncertainties inclined him toward a degree of ease that he later regretted. The strike ended after 35 days, and in 1957 he felt personally that he had been led into a frame of mind that was in error. At present consumer debt is mounting, not only for automobiles but for such things as boats and travel, at the same total rate as in 1955. Furthermore, the new credit card plans have made consumer borrowing even more easy and inviting. Corporations appear to be highly liquid, more so than in 1955. Consequently, the System's own estimate of the leveling off or flattening out of the rate of increase in the effective money supply might be deceptive unless account is taken of the fact that the money substitutes available might have great inflationary potential. To sum up his feelings at the moment, he would not change the discount rate during the period between now and the next Committee meeting for the timing seemed inappropriate. He would continue the existing policy directive and maintain the degree of restraint that had prevailed prior to last week. However, he would resolve doubts on the side of tightness now that the Treasury had obtained its funds.

Chairman Martin commented that in one sense this was an easy meeting to summarize, but that summarization was more difficult when one came to questions of degree. While he would like the Account not to err on the side of either ease or tightness during the next three

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weeks, that would be an impossible directive. He felt that Mr. Balderston had made some good points and that the Committee members would do well to review what happened during the period of the steel strike in 1956 and also review the minutes of the Open Market Committee meetings during that period. It would be worthwhile to recall just what views were expressed at that time and try to fit them into one's own thinking at present.

The Chairman suggested that there appeared to be a period of status quo for the moment. It was clear that the majority would not want to change the policy directive or the discount rate at this time and the difficult problem was one of degree, involving whether to resolve doubts on the side of tightness or of ease. At present, there was less need to resolve doubts on the side of ease in view of the successful Treasury refunding and to that extent he would hope the Account Management would not lean unduly on the side of ease. Essentially, however, the Account Management ought to aim at about the same degree of restraint as now prevailed. There were going to be pressures in the market as the result of views on the steel strike and varying views with respect to Treasury financing. The situation might be favorable for a time and then people might turn the other way, depending on their estimates with regard to the business situation.

Chairman Martin then asked Mr. Mills for clarification with respect to the latter's position on the discount rate and the policy

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directive, and Mr. Mills replied that he would not favor a change in the discount rate or amendment of the directive at this time.

The Chairman then stated that in the absence of objection the Committee would approve the policy directive and no change in the discount rate at this time would be contemplated.

Mr. Hayes said he had the distinct feeling that there were more at this meeting who, if doubts had to be resolved one way or the other would prefer to err a little on the side of ease rather than of restraint, and Chairman Martin replied that, although the statement might be correct, it would probably be a futile process to take a count of the Committee. That was why he had endeavored to state the consensus in the framework of a "perfect" operation.

Mr. Shepardson recalled that in his remarks he had expressed agreement with Mr. Hayes. As he saw it, the Committee favored trying to hold things about where they were, with a minimum of deviation. If there had to be any deviation, in his view it should be of a minimum nature. He gathered that was what a number of others around the table thought also.

Chairman Martin then stated that in the absence of objection the matter would be disposed of on that basis.

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

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

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

Chairman Martin suggested that, in order to avoid the Labor Day holiday, it would seem advisable to schedule a meeting of the Committee for September 1 rather than September 8, 1959. If this should be agreed upon, the question would remain as to whether a meeting on August 11 or August 18 would be preferred.

After a brief discussion, it was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, August 18, 1959, at 10:00 a.m., that the next meeting would be tentatively

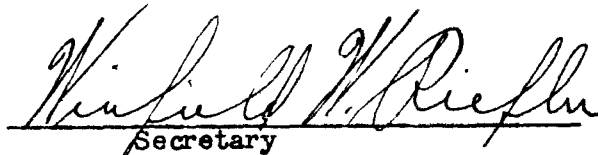
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scheduled for September 1, 1959, and that meetings thereafter would tentatively be scheduled at three-week intervals.

In this connection, Mr. Johns suggested to the other Presidents that a meeting of the Presidents' Conference be scheduled for September 21-23, 1959, and there was agreement on the part of the Presidents with this suggestion, with the understanding that an Open Market Committee meeting would be scheduled for September 22.

The meeting then adjourned.


Secretary