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, June 6, 1961, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Allen
Mr. Balderston
Mr. Irons
Mr. King
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Swan
Mr. Wayne

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

Messrs. Bryan[1] and Clay, Presidents of the Federal Reserve Banks of Atlanta and Kansas City, respectively

Mr. Young, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Thomas, Economist
Messrs. Coldwell, Einzig, Garvy, Noyes, and Ratchford, Associate Economists
Mr. Rouse, Manager, System Open Market Account

Mr. Molony, Assistant to the Board of Governors
Messrs. Holland and Koch, Advisers, Division of Research and Statistics, Board of Governors
Mr. Knipe, Consultant to the Chairman, Board of Governors
Mr. Yager, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Petersen, Special Assistant, Office of the Secretary, Board of Governors

1/ Entered at point indicated in minutes.

Messrs. Eastburn, Hostetler, Baughman, Jones, Parsons, and Tow, Vice Presidents of the Federal Reserve Banks of Philadelphia, Cleveland, Chicago, St. Louis, Minneapolis, and Kansas City, respectively
Mr. Anderson, Financial Economist, Federal Reserve Bank of Boston
Mr. Stone, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Brandt, Assistant Cashier, Federal Reserve Bank of Atlanta

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on April 18, 1961, were approved.

As to the minutes of the meeting of the Committee on May 9, 1961, Chairman Martin noted that Mr. Wayne had raised certain questions upon distribution of the preliminary draft, as indicated in an excerpt from a letter from Mr. Wayne that had been distributed by the Secretary of the Committee under date of June 5, 1961. In order that everyone might have an opportunity to study Mr. Wayne's comments, the Chairman suggested that consideration of approval of the May 9 minutes be deferred, and no objection to that procedure was indicated.

Before this meeting there had been distributed to the members of the Committee a report of open market operations covering the period May 9 through May 31, 1961, and a supplemental report covering the period June 1 through June 5, 1961. Copies of both reports have been placed in the files of the Committee.

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

Money market conditions have remained generally easy over the period since the last meeting of the Committee. There was some tightening around the middle of May due to the complications arising from the settlement of the Treasury's May refunding operation. Over the balance of the period Federal funds have traded somewhat below the discount rate, with reserves readily available at these lower rates. On the other hand, the degree of ease has not been as marked as in the previous period, when float and the German debt repayment contributed to a very easy money market reflecting a concentration of reserves in the "C" banks.

Short-term rates have backed up markedly, with 91-day bills going over 2-1/2 per cent in yesterday's auction. We have found it possible to supply reserves readily through open market operations without exerting undue pressure on short rates. In fact, we recently have bought Treasury bills in the market in addition to our purchases of longer-term issues and the making of repurchase agreements. The higher short-term rates have stemmed in large measure from the Treasury's prospective financing program, the first stage of which was announced on Friday, involving an offering of a strip of 2 to 6-month bills.

System purchases of longer-term issues were continued on a moderate scale to meet the need for supplying reserves or, earlier in the period, to offset sales of short-term issues made to temper a decline in short rates. Despite these purchases, and continued purchases for Treasury accounts, market sentiment has shifted even further toward expectations of higher rates. There is growing opinion that the System will not attempt to interfere with the rate rise which is taking place as a result of the prospects for better business. The entire long-term market has been going through an adjustment based on these expectations and upon the heavy current and prospective private demands for capital as well as upon the Government's increased financing needs. This adjustment has been taking place with generally moderate price declines, although yesterday prices of some issues fell more than a point. This mark-down was probably overdone as the volume of selling was not heavy. There has been no evidence of panic or symptoms of a disorderly market.

The Treasury will auction a strip of 18 issues of Treasury bills on Thursday, June 8, for payment Wednesday, June 14. This new technique was announced on relatively short notice, but the Treasury's estimate of its cash position was revised sharply downward last week, leaving it little alternative but to accelerate its borrowing plans and to sell 18 issues of bills rather than a strip of 13 as initially contemplated. There should be no problem in the Treasury's obtaining adequate tenders to cover the issue, but the rate may be somewhat high against the outstanding market, after allowing for the fact that banks can make payment by credit to tax and loan accounts. However, this cannot be considered unreasonable in view of the new technique that is to be used.

Mr. Robertson said that in his opinion the Account had been managed during the past four-week period in accordance with the policy decided upon at the May 9 meeting of the Committee. However, the effect of those operations had been to accentuate the tightness that had developed in the market. The results had proved, in his judgment, that the Committee's policy was wrong. There had been a restrictive movement in monetary policy, it seemed to him, that had shown up all across the board.

Mr. Rouse stated that he did not think the market had been tight. Instead, he felt there had been a rather easy situation all along. Banks had had adequate reserves to make loans and investments; the fact that they were not doing more evidently reflected other factors. As far as investments were concerned, the banks had confined themselves largely to short-term Treasury bills.

Mr. Hayes said he did not feel the market had been in a tight position during the last four weeks. In fact, statistics on total reserves, nonborrowed reserves, and required reserves pointed to a relatively favorable and a relatively easy situation.

Mr. Balderston said he subscribed to the view expressed by Mr. Robertson. He thought the Desk had done an admirable job, technically speaking, and had lived up to the Committee's instructions. However, he regretted that the market was as tight as it appeared to him to have been during the past four weeks.

Mr. Allen indicated that the position of the Chicago banks tended to verify what Mr. Hayes and Mr. Rouse had said. The Chicago banks had a basic surplus position and sold Federal funds. Around May 15, with the Treasury financing, the situation was somewhat tighter, but it was not tight during the past week.

Mr. Mills commented that there had been an expansion of credit during the period since the May 9 meeting. What did occur was a necessary correction arising out of the excessive reserves that had appeared earlier in the market. Those excessive reserves appeared simultaneously with the subscription date of a Treasury financing, and that combination produced almost a speculative situation, along with an active upsurge in bank holdings of Government securities. Subsequently, when the excessive reserves had been absorbed, it was necessary for the banks that had overbought to reduce their holdings somewhat. The most recent report of weekly reporting member banks reflected some reduction in their investment portfolios, which he would interpret as a natural and proper correction and in no wise an indication of either tightness in the market or an inadequate base for credit expansion.

Chairman Martin said he interpreted the remarks that had been made as general comments on money market developments. He asked if there was anyone who would not wish to approve, ratify, and confirm the open market transactions since the May 9 meeting, and there was no indication to such effect.

Thereupon, upon motion duly made and seconded, the open market transactions during the period May 9 through June 5, 1961, were approved, ratified, and confirmed.

Mr. Noyes made the following statement concerning economic developments:

Only a few measures of economic activity for May are available this early in June. What we do know suggests that the pace of recovery was well maintained. In the case of the index of industrial production the increase seems more likely to be two points rather than either more or less. Weekly data suggest that department store sales were probably off a little from the strong showing in April, but automobile sales were up further. Taking the two together, one might surmise that total retail trade held even from April to May--well above the first quarter level.

Employment improved about seasonally, leaving unemployment at 6.9 per cent, seasonally adjusted--about the same level that has prevailed since early winter. The work week lengthened slightly and there was some further decline in unemployment claims. However, long-term unemployment continued to rise.

Putting these fragments together with production schedules that have been announced for the current month, scattered information on inventories, and the April export-import data, we come up with a guess that GNP in the second quarter is likely to be up by $10 billion--somewhat more than the figure I mentioned in response to Mr. Deming's question at the last meeting.

Broad measures of wholesale prices have shown little change as scattered reductions have offset the increase in sensitive materials. The consumer price index was unchanged from March to April, and the likelihood is that there will be little change, if any, from April to May. However, there does seem to be some evidence of a spreading expectation of price increases in the future.

It is noteworthy that while the improvement estimated for the second quarter would carry total GNP well above its previous high, certain important components remain below earlier levels. For example, even with some improvement in automobile sales, consumer durable goods expenditures in the second quarter will probably be around $40 billion, or 10 per cent less than a year ago. Residential construction, at around $20 billion, will be off 15 per cent or more from the high two years ago. Continuing weakness in these sectors, which have played such an important role in other postwar recoveries, is the basis for the misgivings in some quarters as to whether this recovery will carry forward after the initial stimulus of the inventory reversal disappears. This viewpoint certainly deserves careful consideration.

Neither trade reports nor surveys of buying intentions yet show much evidence of a strong resurgence of consumer demand for durables and housing. On the contrary, builders, Government housing officials, and demographers all seem to agree that housing demand--and even housing needs--are lagging behind expected levels. At the same time, demands for both household durables and automobiles have responded only very moderately to the "off list" price concessions of the past six months. Further evidence of this attitude is found in the fact that instalment credit outstanding to finance both automobile and other consumer goods declined again in April. This reversed the small increase reported in March and brought the cumulative decline in total instalment credit since the first of the year to over $400 million, after allowance for seasonal factors.

So far the stimulus to the economy has come almost entirely from the reversal of inventory liquidation, the rise in Government expenditures, and the well maintained growth of consumption expenditures on both nondurable goods and services.

It is still too early to make revised estimates of Government expenditures to take into account the President's second State of the Union message. The increases involved may be substantial and may more than offset any tendency for private demands to develop less rapidly than in previous recoveries.

Mr. Thomas presented the following statement on the credit situation:

During the past month, as economic recovery progressed, interest rates first declined to new lows since 1958 and then rose close to, and in some cases above, the highs that have been reached at times during the past ten months. Demands on capital markets continued fairly large, while business borrowing at banks declined. Total loans and investments of banks, however, increased substantially more than they usually do in May. The increase reflected largely bank participation in the new Treasury financing.

Expansion in total bank credit was accompanied by a continued large increase in time deposits at commercial banks, as well as by an upturn in U. S. Government deposits from the abnormally low level reached late in April. Private demand deposits, seasonally adjusted, after increasing in April, declined somewhat in May. A moderate increase in required reserves, resulting from the growth in time and U. S. Government deposits, was met by a reduction in free reserves of member banks to an average of $460 million in May--$110 million less than in April. System operations approximately offset the effect of market factors on reserves, providing no additional reserves for credit expansion.

Many reasons may be advanced to explain the upturn in interest rates--some representing current factors of demand and supply and some expectational or psychological. It would appear that the decline to new low levels early in May was largely based on expectational factors, particularly intimations that official policies would be directed toward an endeavor to lower interest rates. The higher level of free reserves available during the latter part of April may also have been a factor in lowering rates at that time.

In May, the tenor of these various forces shifted. Views as to prospective forces affecting interest rates and as to official policies were revised, as more information became available as to business recovery--actual and prospective. Enlarged Government spending plans and a build-up in corporate and municipal financing calendars also contributed to market pressures toward higher yields. Reduced System purchases of intermediate-term securities around the middle of May might also have been a factor, but a subsequent increase in such purchases had only a temporary effect in stemming the rise in rates. Short-term rates in particular, and perhaps also the market in general, have been influenced by the lower level of free reserves and by prospective Treasury financing in the short-term area, as well as by the approach of the mid-June tax date, which is generally preceded by reduced nonbank demand for bills.

Demands on capital markets have been large and seem destined to continue fairly heavy. New and prospective corporate issues have been particularly large. Although issues by State and local governments were moderate in May, following some congestion in earlier months, they are expected to be substantially greater in June. Inventories of unsold municipals in dealer hands have continued to increase. The stock market, after rising to new high levels in both prices and trading early in May, subsequently settled down somewhat, although there was a renewed upturn yesterday.

Bank credit developments during the recent recession, though similar in some respects, differed in others from those in 1954 and 1958 and might be expected to show some differences in recovery. Bank loans, particularly to business, increased more in 1960 and early 1961 than they did in previous recessions. This reflected the continuation of a rather high level of business inventories and low corporate liquidity.

Yet total credit and the money supply increased less than in earlier recessions, because of the two related factors of a gold outflow and a less easy monetary policy. Banks did not have available as abundant a supply of reserves to induce them to add as much to their holdings of Government securities as in earlier periods.

In the early stages of recovery, business loans at banks customarily decline as inventories are reduced, and businesses take advantage of low interest rates to borrow in capital markets. Such a decline occurred at city banks in May, but the total decrease in business loans in the past 5 or 6 months has been much smaller than in corresponding phases of the 1954 and 1958 recessions. Bank loans to dealers in United States Government securities, which have been rather large in recent months, declined somewhat on balance in May, but other security loans increased somewhat further, following a marked rise in April. Real estate loans at banks, which had declined from December 1959 to March 1961, turned up in April and May.

Banks have continued to increase their holdings of Government securities, though not as much as in 1958. Holdings of securities maturing in less than a year have risen substantially, while longer-term issues have been reduced either through sales or through approaches to maturity. These shifts have accompanied increases in longer-term issues held in Federal Reserve and Treasury accounts.

Bank credit expansion in May, however, did not result in an increase in the seasonally adjusted private money supply. It was associated with very large increases in time deposits and U. S. Treasury deposits. The private money supply, after increasing in April, declined slightly in early May and appears to have shown no increase in the latter part of the month. Thus there has been no net increase since March, and only a one per cent growth over the past year. The annual rate of increase since December has been lowered to 3 per cent, compared with 4 per cent a month ago.

The significance of the moderate money supply expansion is difficult to appraise in view of the rapid increase in time deposits at commercial banks. To the extent that this growth reflects shifts of funds from other forms of liquid assets--or a lessened rate of growth in other forms--it does not represent a net expansion in total liquidity of the public. There are some indications of a recent slackening in additions to other liquid assets, but on balance over-all liquidity has increased substantially since mid-1960, following a previous slackening in growth.

Even so, an increase in total liquidity might not be fully adequate as an inducement to recovery, if it does not include an appropriate growth in the money supply. It may reflect a tendency of consumers and businesses to save rather than to increase spending. To foster recovery, money should be readily available to encourage spending and investment.

This brings us to the question of an appropriate monetary policy for the early stages of recovery. In view of the moderate monetary expansion that occurred during the recession, some further growth would seem to be essential. The money supply outstanding is still less than it was two years ago, though gross national product is 4 per cent higher and the potential for further expansion is much greater.

Experience indicates that, in the absence of a vigorous loan demand, bank credit expansion will not occur unless banks have adequate reserves both to expand credit and to maintain excess reserves at around $500 million. Country banks as a group customarily maintain about this level of excess reserves and there is no inducement for banks in general to expand credit unless additional reserves are supplied. This has not been done in the past month. As a consequence there has been no monetary expansion and also a tightening in interest rates.

Questions are being raised in public discussions as to probable rises in interest rates as recovery progresses. At some stage, as credit demands expand, an increase in rates is to be expected, but since current rates are much higher than those prevailing at the beginning of previous recovery periods, the rapid increases of 1958 should not be expected or needed at this time. It is doubtful that appropriate monetary policy at this time should call for any action to bring about a rise in rates until credit demands exceed amounts appropriate for a well-balanced recovery. There is as yet no evidence that this is now the case or is likely to be the case for some months, except for Treasury borrowing. Treasury borrowing needs, according to current estimates, will be almost but not quite as large as in 1958. In any event, these demands provide a medium for an increase in bank credit. Bank credit and monetary expansion still need to be encouraged, not restricted.

Estimates of reserve needs indicate that, after the heavy demands for the current statement week have been met, reserve availability should be fully adequate, or perhaps more than adequate, to cover the heavy liquidity demands of the mid and late June periods, even after allowing for the new Treasury bill offering being taken by banks. In fact, approximately $340 million have already been supplied through System purchases this week. Banks might have $750 million or more free reserves in the next three weeks. In this period there is a need for high free reserves because of the tax payments and other mid-year needs. Additional reserves will be needed, however, early in July and again in August and early September--something like $1 billion net of additional System purchases (including those made this week) may be needed by July 12. System operations can be on the liberal side until there is evidence of excessive credit expansion or unless an outflow of funds abroad is resumed. It seems likely that expectations of recovery, together with repeated Treasury borrowing operations, will keep interest rates from declining.

Mr. Young made the following statement concerning the international situation:

A fresh tallying of our international accounts for the first quarter brings out that a significant shift occurred from the fourth quarter in the basic balance--that is to say, the balance on current account, Government aid, and long-term capital. The basic balance shifted from a deficit of somewhat under $1 billion annual rate in the fourth quarter (not including the Ford investment in Britain in December) to a surplus of about $1/2 billion annual rate in the first quarter.

A moderate improvement was registered in the trade balance, and there was a resumption of inflow of foreign funds into U. S. equities. Because of an outflow of short-term funds, foreign holdings of dollars continued to mount. An over-all deficit of around $1 billion annual rate resulted, but this was far smaller than the several-billion rate in the fourth quarter.

The outlook ahead is for continuing small over-all deficits. As recovery goes forward, the trade balance may fall a little. Government aid grants and credits and private foreign, long-term investment may rise somewhat. For over-all balance, then, much will depend on the short-term capital outflow. While this appears to have been receding in recent months, the prevailing forces working to sustain a net outflow are apparently still fairly strong.

One of these forces is the response of American banks in meeting foreign demands for trade financing. Japanese credit demands, for instance, are especially strong. German exporters, who are obliged to invoice in dollars because importers believe that there continues to be a DM revaluation risk, are also active users of dollar credit facilities, though this has not shown up as a large item in the statistics reported by U. S. banks.

We may properly infer from this quick review of recent payments tendencies for this country internationally that the current close balance in the U. S. accounts is by no means secure. Accordingly, the Committee will need to continue to pay especially close attention to developments in international markets.

As yet, there are no clear signs that the German balance-of-payments surplus is yielding to corrective pressures exerted by the March revaluation and by the efforts of the German authorities to reduce levels of domestic interest rates. German money market rates have already reached reasonably low levels, and long-term rates, while still relatively high, have been showing slow but persistent decline.

The decline in German long-term rates, very much needed for the long run, means in the short run that a rise in market values attracts foreign speculative funds, motivated in part by expectations that the mark might be further revalued. With sterling currently weak, and the future value of the DM in question, inflows into Germany on capital account seem destined to continue.

The German authorities have endeavored to offset the inflow of funds successively by cooperation with other central banks, by advance repayments of Government debts, and by making it profitable for German banks to increase their foreign exchange holdings, particularly dollar assets. Whether this succession of actions will turn the trick remains to be seen.

Sterling is confronted with seasonal and structural influences that are combining to generate very adverse exchange market pressures. Sterling spot exchange has been falling and the close to 2 per cent discount on sterling forward rate has been indicating widespread market uncertainty as to sterling prospects. British interest rates have been firming, especially on the long-term side, where the gilt-edge yield has penetrated well above the 6 per cent level and shows a tendency to settle around 6-1/4 per cent.

Despite these market symptoms of sterling distress, the British fiscal position has moved onto firmer ground and restrictive monetary policy is getting reinforcement from this fact. Also, there is room for discount rate action, should conditions warrant such a step. A British IMF drawing may become expedient in the not too distant future.

A special point worth noting is that the sterling-dollar interest differential with cover has recently been running under one-half of one percentage point. With the 90-day forward rate for sterling tending toward a 2 per cent discount, only a small rise in the Treasury bill rate or a small increase in the forward discount on sterling or both could touch off a flow of short-term funds from London to New York. Such a flow could be accentuated by an uncovered movement and aggravate greatly prevailing pressures against the British pound.

Thus, whereas the Committee in its earlier thinking about the Treasury bill rate had to take into account the need for a braking effect on an adverse short-term capital outflow, the Committee now has to give account to the bill rate's possible incentive role in encouraging an undue inflow of sterling funds.

Before concluding today's commentary, it is appropriate to report briefly on the Paris OEEC meetings in which U. S. delegations participated with some fanfare. The first, the April meeting to which Chairman Martin was a delegate and which was a meeting of the OEEC Economic Policy Committee, had the object of initiating steps that would strengthen the Economic Policy Committee's program in the successor organization, the OECD.

Upon the motion of the U. S. Delegation, the Economic Policy Committee established two working groups--one of open membership to study the sources and bases of economic growth, and a second of restricted membership to concern itself with the fiscal and monetary policies of member countries as they may bear on balance-of-payments equilibria and disequilibria.

Of these two groups, the latter was deemed to be the more important and its first meeting late in May was attended by delegations made up of officials drawn largely from secondary levels of the governments represented.

The U. S. delegation to this second group was made up of Mr. Roosa, as Chairman, Mr. Tobin from the Council of Economic Advisers, Mr. Goldstein of the State Department, and myself. For the most part, discussion was carried on through delegation chairmen, though from time to time other delegates supplemented observations made by chairmen.

The main challenge of discussion for this working group can be stated in this way: "Now that the long-sought-for convertibility of the world's principal currencies has been attained, how do we make convertibility work in a sustainable way? In short, what are the unavoidable financial disciplines to which countries with convertible currencies are obliged to adhere?"

It is not possible to summarize so active a two-day discussion as took place. A few highlights are worth noting:

(1) There was much approving comment about central banking cooperation, such as occurred following the German and Dutch revaluations, and a disposition to favor its continuance and extension.

(2) There was general recognition that speculation as to exchange rate levels, rather than response to international interest rate differentials, was the root cause of the massive short-term capital movements of last fall and early this year. One consequence of recently occurring political upheavals in development areas, it was felt, was to swell temporarily the pool of speculatively motivated funds in international markets.

(3) Interest rate differentials, while not a primary causative force in the massive flows of short-term funds that had occurred, did exert a secondary influence, though not so vital a one as to require that members sacrifice all domestic monetary objectives to harmonize interest levels and structures in the interest of convertibility.

(4) Member countries need to recognize a solidarity of interest in maintaining convertibility, and should be prepared to take such cooperative steps as may be required to keep the international money market orderly.

(5) In reporting about their own country's balance-of-payments problems, participating experts, naturally enough, were rather hopeful; on the other hand, they tended to be quite skeptical that other countries were working out their problems as well.

(6) There was some clarifying discussion about the need for strengthening the IMF's resources and about the need for having Fund drawings available to cope with disturbing capital movements.

(7) Finally, there was a consensus favorable to the idea of having a restricted Working Group along the lines of the present one as a continuing adjunct to the Economic Policy Committee of the new OECD, and exploratory discussion took place of the role that such a continuing working group might perform.

Another meeting of this working group is to be held in Paris on July 3 and 4 and a further meeting late in July. At these meetings, the group is expecting to develop a program of further activities to be submitted later to the Economic Policy Committee.

Mr. Hayes said he had understood Mr. Young to say that the sterling-dollar interest differential, with cover, was still somewhat favorable to the movement of short-term funds from New York to London. A swing in rates could, of course, cause a reverse movement. He asked Mr. Young if the latter would agree, however, that in order to get much of a movement from London to New York it might be necessary to develop quite a spread in the other direction. It was often said, he noted, that a spread of 1/2 per cent is needed to get much of a flow of funds.

Mr. Young agreed, but suggested that such a possibility might not be far out of question at the present time. Also, if a movement of that kind commenced, with sterling under pressure and weak, it could aggravate the speculative movements that are tending to develop against the pound.

At this point Chairman Martin called the attention of the Committee to a memorandum addressed to Secretary of the Treasury Dillon by Under Secretary Roosa under date of June 1, 1961, relating to the Treasury's prospective financing schedule for the period to the first of August. Copies of the memorandum had been distributed prior to this meeting at the Chairman's request, and with the permission of the Treasury. Chairman Martin commented that he felt it important to bear this schedule in mind in connection with the discussion today.

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

> There is no longer any reason to doubt that economic activity reached its low point in February or March this year, and that the recent recession was the mildest in the postwar period. However, the pace and duration of the business expansion remain a serious question. The largest contribution to the expansion over the next few months may well be made by a turnabout from inventory liquidation to accumulation. We have already seen the first signs of such a change. But this influence could peter out fairly quickly if it is not accompanied by a vigorous rise in final demand.
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> In the area of final demand we find a mixed picture. Although the President's recent message suggests that the upward push from Government spending will be stronger than was expected earlier, the outlook for private spending is still uncertain. Consumers in particular give no indication of being on the verge of a spending spree. Recent statistics on retail sales and residential construction have not looked especially buoyant, nor do consumer credit data for April. Furthermore, the unemployment situation has not improved at all and is likely to stay well above acceptable levels even if rather optimistic projections of GNP expansion over the next year are borne out.
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> All of this would suggest the likelihood of continuation for some time ahead of the gratifying stability of consumer and wholesale prices witnessed in the past year. Nevertheless, we cannot disregard the possibility, especially during a period of recovery, of renewed pressure on prices which might originate on the cost side if industry and labor fail to heed the Administration's repeated pleas for prudence and restraint in this area.

The behavior of stock prices, notwithstanding the moderate decline of the last week or so, probably reflects, besides business optimism, considerable public apprehension as to the longer-run likelihood of renewed inflation; and such fears with respect to this country are certainly widely held abroad. Customer credit has risen sharply since January--and while much of the increase may be attributable to the A.T.&T. rights offering, these figures will bear close watching over the next few months.

As for bank credit, business loans and other loan categories responsive to general business conditions have roughly conformed in recent months with what one might expect for this phase of the cycle. On the other hand, acquisitions of Government securities by the banks have been much smaller so far this year than in the comparable period of 1958, even after allowing for a sharp pick-up in May. As a result, total bank credit also lagged well behind the 1958 pattern. The money supply, however, rose at about the same annual rate--3 per cent--in the first 5 months of both 1961 and 1958; but this year Government deposits were declining whereas in 1958 they were showing an increase. Although bank liquidity improved appreciably in April and May, and should benefit further from Treasury financing operations between now and the end of the year, the banks have acquired a much less impressive buffer of liquidity during this period of ease than they did three years ago.

It seems to me that a continued policy of ease is called for by business and credit conditions as well as by the need for maintaining an even keel to facilitate the Treasury's current financing operation. The business outlook remains too cloudy, and the road to full recovery too uncertain, to warrant any change in policy. Both the directive and the discount rate should remain unchanged. Reserve availability should be kept relatively abundant to provide the continuing credit growth required to promote recovery. The recent general level of free reserves seems quite appropriate for the next two weeks, subject to the usual provisos as to the feel of the market.

I think we should also continue to pay close attention to the need for preventing any appreciable decline in short-term market interest rates. While the balance of payments apparently improved considerably in May, after an April showing which was not very gratifying if we disregard the heavy German debt repayment, the position of the dollar abroad remains rather touchy--more particularly in view of current fears with respect to sterling and the consequent ever-present danger of renewed disturbances in the exchange markets. Unless we continue to work to strengthen the dollar vis-a-vis the European Continent, a sterling crisis might easily lead to heavy pressure on the dollar in Continental markets--especially if the U. K. were to make sizable drawings on the Fund, a good share of which would doubtless be in dollars. Fortunately market forces in the past week have been operating in the direction of higher bill rates, which is all to the good in view of these international aspects of our problem--but we should retain maximum flexibility as to choice of maturities for our open market operations in order to continue to deal effectively with the twin need for monetary ease and firm short-term interest rates.

In connection with this overriding need, there is also something to be said for our being able to utilize open market purchases in the intermediate and longer maturities to cushion whatever rise in longer-term rates may accompany further business recovery; and such cushioning, properly handled, would not subject us to any danger of slipping into a pegging operation. There is always a risk that exaggerated expectations as to the speed of the recovery or the likelihood of a turnabout in System policy may tend to push up longer-term rates faster than the realities of the economic situation would justify. I feel that the special authorization in effect in the last few months still serves a very useful role on more than one count and should clearly be renewed.

Mr. Johns said that upon reviewing the period since November 1960 it seemed to him that the Committee's directive, which provided then, as now, for encouraging expansion of bank credit and the money supply, had been appropriate and quite satisfactorily realized. In that period the money supply, defined as demand deposits plus currency outside banks, had increased at a rate of about 3 per cent per annum, compared with about 5 per cent in the early stages of the two preceding recoveries. If time deposits were included, the increase in the same period had been at an annual rate of about 8 per cent, compared with

5 per cent in the early stages of recovery in 1954 and 8 per cent in the like stages of the 1958 recovery. However, in the past month or month and a half there had been no net increase in demand deposits plus currency. While he would not want to overstate the significance of this short-run development, he did want to express the hope that this was not a prelude to a continuing decline in the money supply. As he had indicated, he believed that the directive was appropriate and that the actions of the Account should be such as to encourage expansion of bank credit and the money supply.

As he had pointed out at the May 9 meeting, Mr. Johns said, when calling for monetary expansion it is necessary to have some idea of an appropriate rate. At that time he was inclined to feel that the rate of expansion since last November was perhaps appropriate. However, such expansion of the money supply and total bank credit as had occurred since late 1960 had been made possible, by and large, not by an increase in total reserves but by some decline in excess reserves and a net decline in Treasury deposits. Therefore, whereas he had suggested four weeks ago that a satisfactory rate of growth of money and credit in the near future might be obtained without further growth in total reserves, he was now inclined to doubt whether that was so. This might not be enough. Accordingly, he was now inclined to feel that net open market purchases were needed to provide for such an increase in total reserves as would encourage an appropriate rate of increase in the money supply. To accomplish this, he would suggest that the staff memorandum of June 2, 1961, on the outlook for member bank reserves, including the revised figures distributed at this meeting, provided an entirely reasonable and satisfactory set of indicators, and a procedure which might appropriately be followed.

It followed, Mr. Johns said, that he would not suggest a change in the directive. Neither would he suggest a change in the discount rate. As to operations in longer-term Government securities, pursuant to the Committee's special authorization, he wished to renew his expression of doubt four weeks ago about the propriety of continuing such operations.

Mr. Fulton reported that on the whole expansion of industrial output in the Fourth District, particularly in the steel industry, continued during May, with favorable effects in terms of reduction of unemployment. However, expansion in the heavy industries seemed to have leveled off to a degree. Department store sales showed signs of picking up, but for the year to date were 3 per cent below a year ago, and automobile sales had been relatively weak recently. Building activity had slumped somewhat, due to a considerable extent to a decline in residential construction. There had been little significant change in financial barometers, although the reserve city banks had moved into a net borrowed reserve position for a couple of weeks. Unemployment had declined to some extent, more so in Ohio than in Pennsylvania, and one large area had been shifted from the substantial labor surplus category to an improved classification. However, claims under the temporarily extended unemployment compensation benefits increased about 8 per cent from the previous month, indicating the existence of structural unemployment.

Continuing, Mr. Fulton said that in steel and heavy industries a plateau at a rather low level seemed to have been reached. Orders had not increased in volume beyond the level reached about a month ago and appeared to represent largely replacement of depleted inventories, with indications lacking of any substantial amount of inventory accumulation. However, automobile manufacturers had been advancing delivery dates for steel already on order, and their orders for June and July were better than anticipated.

There was a feeling in the steel industry that the third quarter of the year would be better than the second, and that the fourth quarter of 1961 and the first quarter of 1962 should be good. Foreign imports were still a factor. American oil companies were buying domestic goods for use in the United States, but using German and Italian pipe for operations abroad. While there was some exporting of sheet and strip steel to Europe, this was expected to diminish as European mills with substantial potential came into production. As to the price structure, that question would have to be dealt with in October when wages were scheduled to advance under the present contract. The recent reduction of about 5 per cent in the price of stainless steel was due primarily to overcapacity and competition from aluminum. Also, steel distributors who got a 5 per cent discount from the mills had been splitting the discount with some customers, thereby underpricing the mills; with the 5 per cent reduction all customers would get about the same price. The discount rate allowed distributors has been halved.

Mr. Fulton then discussed factors bearing upon future wage negotiations in the steel industry, following which he turned to monetary policy considerations and expressed concern about the growing spread in longer-term rates between corporate securities, on the one hand, and U. S. Government and municipal securities on the other. He also referred to the decline in the money supply in May, which possibly reflected in part the increase in time deposits, and noted further that the bill rate was now about 2-1/2 per cent, with the Federal Funds rate close to the discount rate. In his opinion free reserves of around $400 million were too low to supply the economy with the reserves necessary to maintain a position of ease and encouragement, and a level of at least $500 or $550 million would be better, depending of course on the distribution of those reserves. The feel of the market should be a controlling factor, and he would not want to have a sloppy market. Nevertheless, he did feel that a posture of more obvious ease would be desirable.

With reference to operations in longer-term Government securities, Mr. Fulton suggested that there could be an unfortunate effect on the Treasury, and also the Federal Reserve, if the System were to pull away from the longer-term market at some time in the future when the rate spread between corporate and Government securities was substantial. In his opinion the System would be criticized severely if a substantial drop in the price of longer-term Governments then occurred. As he saw it, the banks were taking advantage of the Federal Reserve by shortening their positions now that the price of Government bonds had increased. Thus, he would like to see the Desk more active in the bill area as well as the long end, not to drive the bill rate down precipitantly but to take advantage of existing rate levels and nudge the short-term rate down rather than concentrating in the longer end of the market.

Mr. Fulton said he would not change the discount rate at this time. However, he would suggest, in view of the rapid rise in the industrial production index in the past two months, that clause (b) of the policy directive be changed to provide for operations with a view to encouraging expansion of bank credit and the money supply so as to contribute to sustaining the forces of recovery that were developing in the economy, while giving consideration to international factors. Since it now rather obvious that the forces of recovery were developing, it seemed to him desirable to reflect that fact by an appropriate change in the directive.

Mr. King said that if he interpreted correctly the views expressed thus far, they boiled down to the thought that it would not be desirable to be too quick on the trigger. This was in line with his own thinking, since he did not believe the extent and scope of the recovery was so strong, at least as yet, as to produce serious inflationary pressures. Such pressures could come. At present, however, he thought the System would be well advised not to move too quickly to a posture of restraint.

Turning to System operations in longer-term Government securities, Mr. King expressed the view that a good job had been done. However, the time had come when he felt that a way must be found of pulling away from those operations. It did not seem advisable to him to suspend the operations suddenly, and therefore he would suggest asking the Account Management to proceed slowly in the direction of withdrawing from the longer-term market. In this connection, he felt that the bill rate might constitute a relief valve, for in his opinion it could decline somewhat from the present level of around 2-1/2 per cent without injurious effect. On the contrary, he felt that some decline would be desirable.

It was his view, Mr. King said, that attention should be focused at this time largely on an effort to keep the interest rate structure somewhere around the present level and to avoid extreme movements in any direction. To judge from the expressions made thus far today, including those by the staff, there seemed to be a rather general sentiment that it would not be desirable for longer-term securities to fall too much in price, certainly not to such an extent that a disorderly market might result. A concentration of Account operations in bills at this time might, he thought, have a steadying influence on the whole structure of rates. The course that he had suggested might not be easy of accomplishment, but in the present situation he considered it desirable to attempt to proceed in that direction.

Mr. King noted that at the preceding two meetings he had suggested a free reserve target of about $575 million, somewhat in excess of the average over the past several weeks. The comments today indicated some dissatisfaction with the performance of the money supply, and he felt that a target of $575 million might again be appropriate for the forthcoming two-week period. In conclusion, he would not favor a change in the discount rate and he would not be inclined to change the directive.

Mr. Shepardson said that as far as the economy was concerned, the situation did not seem to have changed materially in the past four-week period. The economy was still making some progress, but the prospect of a vigorous upturn in the immediate future was still uncertain. This, he thought, was a wholesome development, for he would prefer gradual growth to a sudden upturn. It would be easier to manage, and it would reduce the prospect of a reverse movement.

Mr. Shepardson expressed the view the recent trend of the bill rate afforded an opportunity to begin a disengagement from operations in the longer end of the market. He would hope that this could be done. As far as reserves were concerned, he felt that they should continue to be supplied freely as needed. It seemed to him that open market operations had continued to provide reasonable ease. Therefore, he would attempt to maintain approximately the same degree of reserve availability as in recent weeks. To restate his position, although he realized that such things could not be pinpointed, he felt that the degree of ease maintained had been appropriate and he would favor its continuance.

Mr. Robertson indicated that he would support a change in the directive along the lines suggested by Mr. Fulton. In general, he considered it desirable to change the directive frequently in line with changes in the economy. Therefore, although he had no strong feeling on the matter, the suggested change would be in keeping with the economic developments and seemed to him appropriate.

Mr. Robertson expressed the view that the System had not succeeded in providing enough reserves to stimulate the economy and encourage expansion of credit and the money supply, at least to the extent he thought desirable. He noted that reductions in interest rates on business loans, consumer credit, and even real estate loans had been rather insignificant, and he saw no indication of idle money looking for investment. In the stage of the cycle through which the economy had been passing for the past three months, banks normally should have had sufficient reserves to be in a position of seeking business, which would reflect itself in lower rates. On the other hand, the Federal funds rate had increased and rates on Government securities had moved up, which was to him an indication of too restrictive a monetary policy or, to put it another way, that policy had not been sufficiently easy. Further, he saw no indication of an inflationary movement which would necessitate the tightening that appeared to have occurred during the past four weeks. Accordingly, he would recommend moving toward an easier position, and he felt that Mr. King's suggestion for a free reserve target of around $575 million was reasonable. In other words, he felt that free reserves should be in the neighborhood of $100 million higher than they had been in the past four weeks. As to the suggestion that had been made that the System begin to withdraw from operations in longer-term Government securities, it was his opinion that those operations should be halted and he would want to speak further on the subject if it should become an issue at this meeting.

Mr. Mills commented that technical rather than economic considerations seemed to be dominating the trend of the discussion today, and that they focused once again on the adequacy or inadequacy of the money supply. In that regard, he suggested that there was a true distinction between a forcing of the money supply and a need for its expansion because of a rising credit demand that would absorb reserves available to the commercial banking system. The second would represent an orderly and a desirable medium. In view of the Treasury's approaching financing, and subsequent financings, hand-made vehicles had been provided for permitting an increase in the money supply through the tax and loan account procedures, for assisting the Treasury financing, and for providing reserves in the appropriate periods. However, in a period when the Treasury was acknowledgedly going to operate with a rising deficit and in a period when, at least hopefully, reviving business activity also would be stimulating an expansion of credit, the System should be wary about taking overt actions other than in the field of utilizing the Treasury's operations to its own advantage. It should be wary about taking actions that would have as their sole objective an explosive expansion of the money supply. He wished to point out the Achilles heel of injecting reserves into the banking system blindly to permit an increase in the money supply irrespective of the market in which those reserves would settle. A policy of that sort would only reproduce situations in the past in which a sloppy money market and an unrealistically low interest rate structure developed. Such a policy would lay a basis for speculation in Government securities of the 1958 variety. Of overriding importance and danger, however, in making the money supply the sole objective and in aggressively attacking that situation was the resulting effect of destroying confidence in financial circles at home and abroad in the wisdom of the System monetary and credit policy by creating the impression that the System was avowedly and frankly adopting a policy having an inflationary objective.

Mr. Wayne reported that business activity in the Fifth District was tracing a well-defined pattern of recovery. The improvement had widened in scope and now covered almost every phase of the economy. Manufacturing man-hours, new orders, and shipments had shown significant gains, and employment and hours worked per week had been stable or slightly higher. The largest steel plant in the District recently recalled some 3,000 workers. The continuing increase in steel production had boosted the demand for coal, leading to increased production and the reopening of several mines in this long-depressed industry. Construction remained a source of strength in the economy, with contract awards maintaining a high level and employment rising toward the record high levels of the past two years. The trends in personal income and retail sales had apparently been about the same in the Fifth District as in the country as a whole. Continuing rains and the coolest weather in many years had delayed farm work in many parts of the District but apparently had not caused any substantial damage thus far. Prospects remained favorable for a good crop year, although prices received by livestock and poultry producers had been dropping, with little hope for near-term improvement.

The position of District banks continued basically easy, although some signs of pressure, probably seasonal, had developed in the most recent four weeks. For most of the period District banks were large net buyers of Federal funds, and borrowings at the discount window rose sharply after mid-May. Deposits of weekly reporting banks showed a sizable reduction and Government securities were liquidated in moderate amounts. Other securities and gross loans rose slightly.

With respect to policy, Mr. Wayne commented that over the past four weeks the Desk had come quite close to the level of free reserves that a majority of the Committee at the May 9 meeting thought would be desirable--a level between $450 million and $500 million. Results of that policy, it seemed to him, had been quite satisfactory. The recent behavior of bank loans indicated that commercial and industrial interests were amply provided with credit; further ease would probably exercise its influence chiefly in stock and other securities markets with effects which, for a number of reasons, might not prove desirable. Moreover, while the money supply had not grown as rapidly as might be desired, liquid assets in general and time deposits in particular had expanded at near-record rates. The rapid growth of time deposits indicated that depositors preferred time rather than demand deposits, and that preference was being stimulated by various bank schemes to attract time deposits. Some months ago certificates of deposit were initiated on a large scale, and in recent weeks there had been a rapid spread of the practice of computing interest on a daily basis. Initially, at least, this latter practice was causing some spectacular increases in time deposits. Most of the funds being thus moved were business funds that could be converted back into demand deposits on short notice if needed by expanded business or if businessmen feared a growth of inflation. For these reasons, further ease would, in his opinion, cause a dangerous accumulation of inflationary potential for the near future.

On the other hand, Mr. Wayne continued, he could see no reason yet to move in the direction of less ease. Business recovery was still in its infancy, and the important question at the moment was how much of the existing ease could be absorbed in this recovery without upward pressure on prices. While there was no way of knowing the answer to this question at present, the large unused capacity in the economy and the remarkable stability of prices over the past year suggested that the present level of free reserves posed no immediate inflationary threat. In view of the experience in the early stages of recovery in 1958, he thought it was important this time not to reverse policy prematurely.

The one element in the present situation that gave him some concern was the large increase in stock market credit and other evidences of a strong speculative movement. However, if this was a problem, the appropriate remedy was action by the Board to change margin requirements, and not open market or discount rate measures. It might be that a change in margin requirements was in order--that was a matter for the Board to decide. He felt rather strongly, however, that if action was taken to this end, it should be made clear that the action was aimed at speculation and should not be interpreted as a first step toward tighter money.

In conclusion, Mr. Wayne said that he did not see any need to change either the directive or the discount rate, and that he would renew the special authorization, in effect since February, covering operations in longer-term Government securities.

Mr. Clay reported that economic activity in the Tenth District had shown some further expansion in recent weeks. Recovery in industrial activity had characterized recent nonfarm developments, with the turnabout in durable goods industries much in evidence among District metropolitan areas. Total nonfarm employment in the District was approximately at the level of a year ago. This contrast with the national situation was a reflection of the lesser sensitivity of economic activity in the region to cyclical fluctuations, with nonmanufacturing employment increasing over the past year and manufacturing employment declining less than nationally. More recently, manufacturing employment had increased moderately.

Another expansive factor in the general level of activity in the Tenth District was the agricultural situation. Cash receipts from farm marketings thus far this year had run well above last year's record level, and at present another record this year appeared probable. Weather conditions generally had been favorable for small grain crops and for pasture. The wheat harvest was under way in the southern part of the District, and currently it appeared likely that the crop would equal last year's excellent harvest. The payments to farmers under the new Federal Feed Grain Program constituted another source of expansion in farm cash income.

Examination of the liquidity position of District member banks showed some improvement over the past year, Mr. Clay said, resulting from the combination of a relatively strong deposit expansion and a relatively moderate loan expansion. Despite some recent easing of liquidity positions, however, District banks had made only moderate headway in reversing the decline that took place during the last business upswing. Both country banks and reserve city banks showed an appreciable net decline in their liquidity positions since the comparable juncture of the previous business cycle.

Turning to the national scene, Mr. Clay commented that the developments of recent weeks showed evidence of further economic recovery. At this early stage of the recovery, however, the economy was only beginning the utilization of the resources that were available for employment. While monetary policy could not do the job by itself, it should contribute its part to facilitating the appropriate pace, level, and duration of the economic upswing. With unused resources large and bank liquidity low, this would be an inappropriate time for monetary policy to become restrictive. It would be necessary in the months ahead to provide not only the funds required for seasonal needs but also the additional funds for facilitating the requisite economic growth. At the present time, the policy of monetary ease should be continued and on a somewhat more generous scale than it had been since the May 9 meeting of the Committee.

In conclusion, Mr. Clay said that he would recommend no change in either the directive or the discount rate.

Mr. Allen said two meetings of Chicago area economists in May revealed unanimous agreement that the rise in economic activity was proceeding more rapidly than anticipated, and a majority opinion that the increase would become even more vigorous in the months ahead. Some of those who expected a strong upward movement felt that it would be accompanied, inevitably, by inflationary pressures.

It appeared to him, Mr. Allen continued, that substantially increased consumer spending would necessarily occur if there was to be a rise in activity sufficiently vigorous to result in inflationary pressures. During May, consumer spending apparently remained near the April level, and there was evidence of substantial savings, notably the continued rise in time deposits at commercial banks. To him, this was no particular cause for alarm, unless and until it resulted from a fear psychology. The international situation and the increase in governmental expenditures might produce, or might have produced, an attitude of caution, but if that meant a steady rate of improvement in economic activity rather than a boom condition, so much the better.

Despite the McGraw-Hill and Fortune surveys, which predicted that capital equipment purchases would rise appreciably in the months ahead, new orders for total industrial machinery declined sharply in April, and in the case of machine tools there was a substantial drop. Producers of capital goods in the Seventh District advised that there had been little rise in orders recently. And although the improvement in the steel industry had been substantial and heartening, there was no evidence of a sufficiently strong demand to support higher prices for steel; in fact, prices of some types of steel had been reduced quite recently.

In the automotive area, Mr. Allen said, he could add nothing to the staff review except to say that Detroit sources did not expect a strike. If a strike should materialize, they felt it would be brief.

Liquidation of business loans had continued at District reporting banks, and in the four weeks ended May 24 more than offset rather sharp increases in real estate and "other" loans. This was a normal lag following a business upturn, and might continue for some time unless market rates moved up rapidly. The large Chicago banks were under some reserve pressure in mid-May as they acquired Treasury securities, but that had since eased off and in the past week they had a basic surplus position and were net sellers of Federal funds.

With reference to the optimistic views of the Chicago area economists, Mr. Allen commented that he should add that some experienced businessmen, who played pretty much by ear and were less exposed to statistics, but whose playing had been markedly successful in the past, were less optimistic. They felt that the recovery would proceed with the saucer or perhaps a cereal bowl curve, but not in the V shape.

In any case, Mr. Allen concluded, it seemed to him that for the next two weeks the Committee should try to retain approximately the degree of ease that had existed for the past month. He would not change the directive or the discount rate at this time.

Mr. Deming said there was little evidence at hand currently to indicate a rapid economic recovery in the Ninth District, a picture which apparently contrasted rather sharply with that of the nation. On a seasonally adjusted basis, District personal income in April fell about 1-1/2 per cent from March. Most of the decline was in the wage and salary component and might reflect in large part unfavorable weather for construction work, although there were declines in many other sectors also. Employment gains had been small thus far, retail sales had been relatively slow, and home building showed no signs of strong upsurge. As he had reported previously, iron mining was in for a bad year. The agricultural outlook had improved with beneficial rains and a good crop was in prospect, but not as good as last year's bumper output. All in all, the current evidence indicated slower growth prospects for the District than for the nation. How much the evidence had been influenced by weather conditions remained to be seen.

In District banking the record of the first five months had been mixed. At city banks, loan growth had been significantly below normal and very much smaller than in the like period of either 1959 or 1960. Country bank loan growth, while smaller than in the past two years, had been about double the normal growth. Seasonal deposit losses at both classes of banks had been well below normal and much smaller than in like periods of the past two years. As a result, city bank loan-deposit ratios, while still high by postwar standards, were down from their postwar peaks, while country bank loan-deposit ratios were at 30-year highs.

Mr. Deming said he saw the national economic picture as one characterized by an economic upturn of gathering strength. At the same time he continued to see enough unused resources--men, materials, and machinery--to absorb a strong upturn without undue strain. This was not to say that there could be no build-up of inflationary forces during the next six to nine months; strikes, overoptimistic wage settlements, speculative buying, and other factors could produce such a build-up. It seemed unlikely, however, that physical resources would be strained or real bottlenecks would develop during that period.

Mr. Deming also saw the national economy and the financial system as being not overly liquid at present. He had already referred to District loan-deposit ratios, and broader measures also suggested no overliquidity. The ratio of the money supply, conventionally defined, to gross national product was about 28 per cent at present. It was over 30 per cent in the second quarter of 1957 and 33 per cent in 1955. Aside from 1960, when the ratio was slightly lower than today, one had to go back to the 1920's to find smaller figures. Even if time deposits were included in the money supply numerator, ratios to gross product today would be low by historical standards until one got back to the early 1920's.

Recently, Mr. Deming said, the Minneapolis Bank had done some crude figuring to produce some other ratios that might be of interest. If one took the growth in gross national product during the first year of upswing from the troughs of 1954 and 1958 and associated with those gains increases in the money supply and bank credit in the same time periods, he would get the following results. For every dollar increase in money supply, there was associated an increase of between 6 and 7 dollars in GNP. For every dollar growth in bank credit, there was associated an increase of about 3 dollars in GNP. If, as seemed possible, GNP were to increase $40 billion over the first year of the current upswing, these ratios would suggest associated growth of $6 billion in the money supply and $13 billion in bank credit in the same period, or rates of growth significantly larger than presently evident.

Mr. Deming noted that he was anything but a devotee of a mechanistic approach to policy making. He had not cited the foregoing figures as targets or goals. He cited them merely to emphasize the simple point he wished to make about near-term monetary policy. Until it could be demonstrated reasonably well that rates of growth in money supply and bank credit were running significantly higher than at present relative to GNP gains, or that new credit was financing speculative activity or underwriting price increases, monetary policy should continue in an easy posture. Such a policy seemed to offer little danger of losing control over liquidity.

To implement such a policy, Mr. Deming suggested a free reserve target of about $500 plus million, a little higher than had prevailed, with excess reserves in the neighborhood of $650 million and borrowings of about $100 million. In common with many others, he had said harsh things from time to time about the free reserve guide. For the present, however, it might be the best guide available, if an easy posture was to be maintained. As he said at the May 9 meeting, this policy would keep a loose rein on the credit horse, but would not let him run free and would permit gradual tightening should that seem indicated.

With regard to rates, Mr. Deming expressed the view that there was no longer a need to be much concerned about propping up the short rate; other forces seemed to be taking care of that. In fact, it might be found desirable to keep the short rate from rising in light of the British situation. He did not think the Committee could disengage itself from operating in the longer-term market at this time. In fact, he would hope that any open market buying could be concentrated in the longer maturities to moderate tendencies for longer rates to rise, although he was not sanguine about prospects in that area. In any event, the Desk was hardly likely to be buying much, if anything, in the next two or three weeks if the projections of the Board's staff were reasonably accurate.

In summary, Mr. Deming said, he would like to see a policy of ease continued for the time being and would like to see any errors made on the side of ease. He hoped that knots in the market could be avoided. He saw no need to change the discount rate and no strong reason to change the directive. However, Mr. Fulton's point about recognizing that economic conditions had changed since the current directive was first issued made him somewhat sympathetic to amending the language of the directive. Mr. Deming suggested that the change in economic conditions could be reflected in the directive merely by substituting the word "are" for the phrase "appear to be" in clause (b).

Mr. Bryan joined the meeting during the course of Mr. Deming's comments.

Mr. Swan reported that recovery was proceeding in the Twelfth District, but still somewhat less vigorously, to judge from April and May indicators, than in the nation as a whole. Employment had been rising very slowly and, although over-all unemployment figures for the District were not yet available, the decline in insured unemployment claims from April to May were considerably less than seasonal. In agriculture, receipts of farmers from marketings and Government payments were expected to be higher in 1961 than in 1960, but the gain might be less than for the country as a whole. In cotton, because of overplanting last year relative to allotments, District acreage this year was down 12 per cent, compared to an increase nationally of 5 per cent. Banks were still expecting increases in commercial and industrial loans to develop, but such loans declined in the four weeks ended May 24. Demand deposits dropped sharply during that period, while time deposits continued to rise. On the whole, banks were in a somewhat tighter position in May than earlier, as reflected by the fact that they became net purchasers of Federal funds.

As to policy, Mr. Swan said it seemed to him that adequate ease, to use the phrase mentioned by Mr. Deming at the May 9 meeting, was still essential. In the words of the directive, the Committee needed to encourage expansion in bank credit and the money supply in order to stimulate the forces of recovery. At least in the period immediately ahead, and possibly for some further period of time, it appeared to him that the additional credit demands that should be generating as recovery proceeded could be met without undue pressure on output and employment.

Mr. Swan went on to say that, as this meeting approached, he had thought his position would be about in line with the consensus expressed at the May 9 meeting. However, he would like to see a little more ease than had existed in the past few weeks. More specifically, he would not object to a 2-1/2 per cent bill rate provided that was not considered simply a point in a continuing upward trend. His preference though, would be for a bill rate fluctuating in the area from 2-1/4 to

2-1/2 per cent. Similarly, he would accept a net free reserve position of around $500 million, rather than $600 million, but he would be much less concerned about going above $500 million than about dropping significantly below $500 million.

Mr. Swan said he would not favor changing the discount rate. He would, however, support a change in the directive along the lines that had been mentioned. One possibility would be simply to drop the words "that appear to be developing" from the phrase "strengthening of the forces of recovery that appear to be developing in the economy."

Mr. Irons said that, generally speaking, activity in the Eleventh District was fairly stable at fairly high levels. He could not put his finger on any element of great strength that might force the recovery ahead at an inordinately rapid rate. Department store sales probably did not quite match seasonal levels during the past month, but they were fairly stable at a fairly high level. Incidentally, their reliability as an indicator was open to some question because of the development of discount houses, particularly in Dallas and Houston, and it was not known just how much diversion of business to those houses was taking place. Employment and unemployment each improved during the past four-week period, and the petroleum situation continued about as it had been, with some threat of an overstocked situation developing. The agricultural situation was generally good; available figures indicated that for the year to date farm cash receipts were up 10 per cent from last year, with receipts from both crops and livestock showing increases. Available figures indicated that although construction was down a little the past month, for the year to date there was a gain, the increase in nonresidential more than offsetting the decline in residential.

The District banking situation seemed to reflect adequate reserve positions, Mr. Irons said. During the past period, in contrast to the preceding period, District banks were net sellers of Federal funds on balance by a small amount. Borrowing from the Reserve Bank was almost negligible, consisting solely of borrowing by a few country banks for seasonal purposes. Loans, investments, and deposits all declined in the latest period, with the loan decline largely in the commercial and industrial category.

After summarizing the District picture in terms that conditions were generally satisfactory and improving at a moderate rate, Mr. Irons turned to the national picture and said it appeared to him that during the past four weeks reserves had been available without restraint. Rates and other factors had been in line with his recommendations at the May 9 meeting. He continued to feel that there should be adequate reserve availability. To a considerable extent this would have to be determined by the feel of the market, as experienced by the Manager of the Account, and the distribution of reserves would also be an important factor. The bill rate, having moved up to 2-1/2 per cent, was at a level where purchases of bills could be made as needed to put funds into the market. He would consider it desirable if the bill rate was in the range of 2-3/8 per cent, with Federal funds from 2-1/4 to 2-1/2 per cent, and he would think there should be a minimum of borrowing through the discount window, with such borrowing as took place accounted for by banks that happened to be temporarily in a tight position. As to free reserves, he would suggest $400-$500 million; he would not be too disturbed if the figure went somewhat higher as long as market rates did not begin to reflect signs of excessive ease.

This might be a situation, Mr. Irons felt, where the Committee could begin to lessen its activity in the intermediate and longer-term areas of the market. However, he would leave that decision largely to the on-the-spot judgment of the Account Manager as the latter saw the situation unfold, and he would continue the special authorization for the next two-week period. Perhaps the rate situation, as it had developed, was such that it would be possible to operate as needed in the short-term area. Also to be kept in mind was that, according to the staff statistics, there probably would not be too much opportunity for substantial intervention in the market between now and August.

Mr. Ellis reported that business recovery in New England appeared to be proceeding quite satisfactorily, with production moving along about on pattern. The April manufacturing index was up three points from March and was running about 3 per cent below the year-ago level. In April there was a sharp pickup in residential construction contract awards. Total contract awards for the year were up about 3 per cent, which was just about in line with the nation. Employment continued to rise slowly, being up 1 per cent in April to a level about 1 per cent below a year ago, and unemployment continued to decline slowly. The pattern of spending continued strong at department stores, but lagged for automobile dealers. Business loans were not as strong as in 1959 or 1960, and deposits were about on the seasonal pattern so far this year. The average loan-deposit ratio of 66.2 per cent was almost the same as a year ago, while the national ratio of 61.1 was 2-1/2 points below last year. After having been net sellers of Federal funds for three months, District banks were buyers on balance during the past two weeks. Mutual savings banks in Boston reported some growth in the availability of funds in relation to mortgages; four of the 11 banks reported a decline of 1/4 per cent in average mortgage rates between March and April. The going rate was now about 5-1/4 per cent.

Turning to policy, Mr. Ellis expressed general satisfaction. If policy were to be changed now, he felt that the change should be in the direction of somewhat greater ease, although without making any significant shift. He would continue the current pattern of providing reserves, as called for by the directive, to support a strengthening of the forces of recovery in the economy. The possibility of a tightening in the money market through some inadvertence should be avoided, particularly in view of the pending Treasury financing. However, this did not lead him in his thinking to the view that it would be desirable to convert System operations in longer-term securities from the present objectives into an effort to cushion changes in longer-term rates. Careful consideration would be warranted before any switch was made in the rationale with respect to operations in the longer-term area. As mentioned by the Account Manager, the market might go through swings in rates due to expectations that were not justified, but he would feel poorly equipped to put his judgment ahead of that of the market. If market conditions should permit, and if in the judgment of the Account Manager it was appropriate, he would favor gradually reducing System participation in the longer-term market but, as this approach suggested, he would continue the special authorization.

Mr. Ellis said that he would not favor a discount rate change. With respect to the directive, he felt that the Committee could perhaps wait another two weeks before making a change. However, either today or two weeks hence it would seem advisable to recognize that the present wording was no longer appropriate, because the forces of recovery that earlier had appeared to be developing in the economy were now actually in evidence.

Mr. Balderston indicated that he would favor a change in the directive along the lines suggested. Proceeding, he said that he would like to turn for a moment to what appeared to him to be the salient factors in the current situation, although in mentioning them he was not implying forgetfulness of longer-run objectives. First, the Treasury would be in the market the first half of June and all of July. Consequently, it was important that the market not be too unhealthy in that period. Second, the market for long-term Government securities, and intermediates, was showing weakness and lack of buying interest, which indicated to him that potential buyers were relying more and more on the behavior of the Federal Reserve and the Treasury. This situation should be corrected as rapidly as possible, and to that end he would favor a gradual disengagement from System operations in the longer-term area. Third, the bill rate was weaker and seemed likely to trend higher as the Treasury increased the supply of bills. Fourth, as mentioned by Mr. Young, the pound sterling was under pressure. When either of the world's two reserve currencies--the pound or the dollar--was under pressure, all must be concerned. While he did not know how soon interest rate differentials might induce a return flow of short-term capital to this country, the situation should be watched closely. Fifth, the money supply, adjusted, had fallen between the last half of April and the last half of May by about $400 million.

Mr. Balderston went on to say that he was not certain what policy conclusion should follow from the set of circumstances that he had recited. However, he would again urge the Open Market Committee to use a higher free reserve target, and he would be willing to accept the $575 million target suggested by Mr. King. It had been his feeling for many weeks that the Committee ought to discover, if possible, from inductive data what level of free reserves was required to keep the money supply moving upward. For six months, starting with November, there had been a gradual increase in the adjusted money supply figures, and at the end of April the money supply stood at $142.3 billion. However, between the end of April and the present time, there had not only been no progress but actually a decline. The Committee should take into account, he felt, that this was a period when business expansion needed to be fed and one when the demand for bank credit was not strong. In the absence of such demand, banks would be less inclined to borrow from the Federal Reserve; they would not take the initiative to expand reserves. Furthermore, as had been noted, country banks commonly carry excess reserves of about $500 million. Thus, if total excess reserves were at that level there would appear to be no stimulus to expansion. Accordingly, he would again suggest probing upward toward $600 million of free reserves in order to see what the effect might be.

As to the problem of disengagement from System operations in longer-term securities, Mr. Balderston said that he would be averse to a published announcement that the System was getting out of the market at the long end. He would also be averse to complete withdrawal at this time, because that would be tantamount to a public announcement as soon as observers realized what had happened. Therefore, he would support a procedure of gradual disengagement along the lines suggested by others at this meeting.

Mr. Bryan said the Atlanta Reserve Bank had made a considerable study to try to find out what had happened in the Sixth District during the recent downturn and at the beginning of the present upturn. In the other postwar recoveries, the District did not go down as far as the country as a whole, based on statistical measures, and it came up more rapidly. This time the situation was different, in that the District's behavior had been almost exactly like that of the national economy. As to the national economy, the Reserve Bank had tried to see whether or not, by comparisons with other recoveries, any real basis could be found for predicting the duration and movement of the current recovery. After study, however, it was concluded that the trough of the recession had been passed too recently to make any reliable judgment.

As to policy, Mr. Bryan said it seemed to him that there had been monetary ease. He did not believe that the recent rate movements were caused essentially by any lack thereof. Instead, he thought they had been caused by other factors, to which reference probably had been made prior to the time he joined this meeting. Accordingly, believing that there had been monetary ease and looking at the picture of required reserves, total reserves, and free reserves, he would come out for a continuation of approximately the present policy. However, inasmuch as required reserves, the money supply, and total reserves had not as yet behaved quite as he would have supposed them to behave, he would be willing to agree to a modest increase of free reserves. An increase such as he had in mind would mean a free reserve target of $500 million, perhaps somewhat higher.

With regard to System operations in longer-term securities, Mr. Bryan said he would like to associate himself with the view that the current authorization should not be changed officially, either by means of a public announcement or a de facto revelation. However, he believed that the Account probably ought to put more emphasis on bill purchases than it had been recently, and by the same token reduce proportionately its purchases in the long- and intermediate-term market. He would hope that at some appropriate time the System might disengage from the whole operation. However, he did not see any chance of that until the System had allowed the operation to run the whole course of a business cycle and more experience had been accumulated than at present.

Chairman Martin said that the phrase "errors on the side of ease," as used by Mr. Deming, reflected his own position as far as policy was concerned. This was not intended to mean that he would favor any specific change in policy. A thing that interested him, the Chairman said, was that within a free reserve range of $100 million or so, it was not possible to make too much of a judgment. Looking back at past periods, he noted, for example, that in the early part of 1960 the System was not trying to ease credit. As a matter of fact, it was trying to tighten gradually. Nevertheless, rates gave the System a clear signal. At the present time, the System was not trying to tighten credit, and yet rates were showing some indication of moving upward. This was in accord with business conditions and business trends. The point he was making was that the Committee ought to utilize little signs of that kind, although without overemphasizing them.

The thing that concerned him most, Chairman Martin said, was the Treasury's prospective financing schedule. That was the reason he had asked the Treasury to permit use of the memorandum distributed prior to this meeting. The Treasury's problem, he pointed out, is always complicated by Federal Reserve policy immediately preceding and during a period of Treasury financing. He would not suggest trying to maintain exactly an even keel. However, if the Committee tried to help the Treasury by going to a $600 million level of free reserves, that might produce so sloppy a market as to make the Treasury's problem more difficult.

Errors on the side of ease, although definitely without showing any clear change of policy in terms of reserves, seemed to Chairman Martin a consistent policy that would be in accord with the thinking of the majority at this meeting. He realized that differences in terms of degree had been expressed. Before dealing with them, however, he suggested that consideration be given to the directive. While he had no strong feeling, he thought a case had been made for a change, and he saw no reason why the Committee should not make a change along the lines suggested if it so desired. The choice of phraseology from among the several suggestions that had been advanced did not seem to present any severe problem.

Mr. Hayes said that, like the Chairman, he did not have any strong feeling. However, he recalled that on occasions in the past participants in Committee meetings had expressed the view that it might be better not to change the directive unless the Committee was making some significant change in policy. Certainly, no such change was indicated by the discussion today. If anything, the discussion suggested a slight move in the direction of further ease, while the tone of the proposed revision of the directive might suggest a change in the opposite direction.

Chairman Martin replied that he thought the point Mr. Hayes had mentioned was a valid one. It had been raised on previous occasions.

According to one line of reasoning, if the Committee was not making any substantial change in policy, there was some advantage in not changing the directive. Consequently, the directive ordinarily would be changed only when the Committee actually was changing policy.

Mr. Swan recalled that when the Committee changed the directive at the April 18 meeting, it was clear that no significant change in policy was intended. The Committee simply had been trying to bring the directive up to date in the light of then current circumstances. He would suggest that any change in the directive today be of a minimum nature. However, it did seem to him that in relation to realities the Committee should not be in the position of issuing a directive which referred to forces of recovery that appeared to be developing in the economy. In his opinion, a minimum change to recognize the appearance of the forces of recovery that had been anticipated earlier would not necessarily imply any change in policy. Rather, it would simply make the directive more consistent with current economic events.

Mr. Hayes said he would be inclined to agree. It was simply a matter of tidying up the language of the directive. However, having in mind the discussions in the past to which he had referred, he hoped there would not be an interpretation that a change in the directive of the kind that had been suggested at this meeting implied any significant change of policy.

Mr. Irons recalled that sometimes in the past he had been one of those who expressed the view that changes in the directive should coincide with changes in policy. However, an amendment of the directive along the lines suggested today would not change the directive in any significant way in terms of policy. It would still be stated that operations were to be conducted with a view to encouraging expansion of bank credit and the money supply so as to strengthen the forces of recovery in the economy. The only effect would be to eliminate one qualifying phrase relating to economic conditions. Therefore, he would favor such an adjustment of the directive at this time.

After further discussion of the various suggestions that had been made for changing clause (b) of the directive, the Chairman said that he would put the matter to the Committee in terms of changing clause (b) to provide for open market operations with a view to encouraging expansion of bank credit and the money supply so as to contribute to strengthening of the forces of recovery, while giving consideration to international factors.

No indication of dissent from such wording was heard.

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

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities

to run off without replacement) for the System Open Market Account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to encouraging expansion of bank credit and the money supply so as to contribute to strengthening of the forces of recovery, while giving consideration to international factors, 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 then reverted to the question of the free reserve target for the next two weeks and noted that a range of opinions had been expressed, varying from around $575 million to continuation at approximately the current level.

In this connection he turned to Mr. Rouse, who said that during the current statement week free reserves should average about $492 million. For the period May 9 to May 31 they averaged $488 million. Over the next two-week period, he would guess that if the Account did nothing free reserves would average around $600 million. Over that period, he noted, there would be some unusual situations. The Treasury would be taking bids on its financing offer on June 8, with payment due June 14, and there would also be the corporate income tax payment period, so a good deal of churning in the market was indicated. Looking at the major factors that were developing, if anything needed to be done, the Account might run off bills on June 15. Otherwise, there might be no occasion for the Account to be in the market, recognizing that the Desk would have to be governed more or less by what eventuated between now and the next meeting. On balance, he thought free reserves would tend to run closer to $600 million than $500 million.

Mr. Thomas pointed out that from the standpoint of the amount of System operations needed to cover the volume of required reserves projected there was little difference between projections of the New York Bank and the Board's staff. If New York's projections were realized, free reserves would be less, with a given volume of operations, than in the case of the Board's staff estimates of required reserves needed; total reserves might be about the same.

Mr. Fulton commented on problems occasioned by the distribution of reserves at any particular time. These problems, he suggested, seemed to call for directing remarks more to the feel of the market than to over-all figures. Chairman Martin noted that this was what the Committee was concerned with in using terms such as the feel, color, and tone of the market.

The Chairman then said that he understood the consensus to favor resolving doubts on the side of ease. To put a target on that consensus was, he thought, almost a futile endeavor. However, he would say around $500 million of free reserves or something in that area. Certainly, the Committee would not want a tightening in the market to develop during the period of Treasury financing, nor would it want the market to become sloppy.

There was no indication of dissent from the accuracy of this interpretation of the consensus by the Chairman.

Chairman Martin referred next to the special authorization for operations in intermediate- and long-term Government securities. In the light of today's discussion, it appeared to him that the Committee would favor renewing the special authorization until the next meeting. However, there were a growing number who would like to see a gradual disengagement from operations in the longer-term area. It also appeared that a bill rate of 2-1/4 to 2-3/8 per cent was nothing that the Committee would be alarmed about at the present time. The Committee would not want to move from a nudging to a price-fixing operation, although it was recognized that the System had some responsibility for the market as a whole. That, he thought, was really what the Committee was dealing with today in renewing the special authorization. It was placing a large degree of responsibility on the Account Manager, but with the understanding that the Committee did not consider it as necessary to take account of the bill rate now, with that rate at 2-1/2 per cent.

Mr. Mills said he agreed with the consensus, but for the record would like to be identified with those who would disengage from operations in the longer-term area rather than withdraw gradually. A gradual withdrawal, he felt, could only confuse the market. He then referred to an article in the financial columns of today's New York Times which, he suggested, offered the most acceptable position that the System could take in the eyes of the public. As he recalled the article, the writer indicated that the operations in longer-term securities in which the System had been engaging had not been effective. The writer surmised that there would be withdrawal from engagements in the longer-term area and that the visible evidence of that sort of withdrawal would confirm the market estimate.

Chairman Martin commented, in response, that in his opinion it was important to view what the Committee had been doing in proper perspective. There would be differing judgments as to how effective or ineffective the operations in the longer-term area had been. However, it should not be said simply that the operations were a complete failure, because there had been a complete shift in the business picture in the midst of those operations. In terms of the flows of money, the rapidity of the movement of funds abroad had been halted, and the flow of funds into domestic business had been somewhat accelerated. The question of how one related those developments to the System's operations was a matter of semantics in part, but those in the System should not go around saying the experiment had been a complete failure and that this was evidenced by the change in the rate structure of the market. He made these comments, the Chairman said, because it was important that everyone keep in perspective what was involved.

That under present circumstances the so-called nudging effort was getting to be a matter of flying into the wind was becoming quite apparent to him, the Chairman continued. That was something that should be borne in mind. Mr. Mills had raised a good point with regard to the method of disengagement from operations in the longer-term area. In general, he (Chairman Martin) did not favor cushioning as such, and one could make a case that under current conditions the System should step out entirely. However, he questioned whether that was the right approach at the present time, particularly in light of all of the misunderstandings and public discussion. In his view, the Committee should leave to the discretion of the Account Manager the question whether in terms of the objectives of monetary policy, further operations should be conducted in the longer-term area. In effect, that was the context in which the Committee had been operating all the way through.

The Chairman added that he did not think it was possible to cling successfully to the view that System operations have no influence on interest rates. This was a view that the System had gradually gotten itself into, and he thought it was absurd. The academic profession and the public generally had gotten the System over a barrel on that point. The question of controlling rates was, of course, a different story.

Chairman Martin went on to say that he felt some success had been achieved in promoting an understanding in various places outside the System as to what was involved in the operations in the longer-term area. He also thought that the Committee must do the best it could to resolve the box it was in; the fact that it was in that box was due largely to the change in business conditions, and the Committee should endeavor to resolve the matter in as orderly a way as possible. The Account Manager should have discretion, within the framework of gradual withdrawal, to withdraw from operations in longer-term securities as rapidly as possible without unduly impairing the structure of the market This was a problem with which the Committee would have to wrestle from now on, but it seemed to him the only consistent approach to take.

Mr. Hayes said he would like to associate himself generally with what the Chairman had said, although with perhaps a little difference in the degree to which he thought the System might legitimately exert some cushioning influence. He was not sure whether he had interpreted Mr. Mills' comments correctly, but he would say the financial writer in question had from the start been a poor interpreter of what the System had been attempting to do.

Mr. Mills commented that the writer had expressed a sophisticated view: it was the market that made these decisions rather than some outside estimate of what the System's purposes and intentions were.

Mr. King said that to him the primary consideration had been that the special operations were a necessary part of the effort to maintain the bill rate. In that light, he felt that the special operations had been successful. Whether the objective was a desirable one might be debatable, but he thought the System would be well advised to discuss the matter in that context more than as an experiment to determine its ability to nudge or push longer-term rates.

Chairman Martin then inquired whether it would be agreeable to the Committee to leave the special authorization in effect until the next meeting of the Committee, with those who wished to record a dissent at liberty to do so. He added that in looking at the record he was not sure whether Messrs. Allen and Robertson would want to be recorded as dissenting each time from a continuation of the special authorization in the same manner that they did when the authorization was first granted. That was something that could be decided at another meeting. His only point was that he did not know whether they would wish to have themselves recorded at every meeting as being out of sympathy with what the Committee was doing.

In reply, Mr. Allen noted that Mr. Robertson, at a recent meeting, had expressed the wish that the Committee could decide on a procedure that would make it unnecessary to record a dissent at each meeting.

The Chairman then commented that the Committee had granted the special authorization on February 7 and an announcement of the initiation of transactions under that authorization had been made on February 20. However, the Committee had in effect certain operating policy statements that never had been changed except to the extent that the techniques were modified by the terms of the special authorization. The Committee could either abandon the operating policy statements, which he would not be willing to do right now, or it could hold them in abeyance, so to speak, until such time as it wanted to make a policy decision on them as such. His question was whether in the interim Messrs. Allen and Robertson would want to be recorded at each meeting against action to continue the special authorization in effect until the next meeting.

Mr. Allen responded that he wished to be recorded against the continuation of the special authorization for the two weeks until the next meeting, with the statement for the record that at its inception he felt the operation was ill-advised and misguided and that the operation had, as he saw it, confirmed that judgment.

Mr. Robertson said that in his view this was a good time to terminate the operation. Therefore, he would not want to renew the special authorization.

> Thereupon, the Committee authorized the Federal Reserve Bank of New York, between this date and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate and/or longer-term U. S. Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.
>
> Votes for this action: Messrs. Martin, Hayes, Balderston, Irons, King, Mills, Shepardson, Swan, and Wayne. Votes against this action: Messrs. Allen and Robertson.

Chairman Martin then referred to the distribution before this meeting of excerpts from his testimony before the Joint Economic Committee on June 2, 1961, in connection with hearings on the Board's Annual Report for 1960. One of the excerpts included references by Senator Bush and by Committee Chairman Patman to the following statement in the text of the recent message from the President of the United States to a joint session of the Congress on the subject of urgent national needs:

> "The full financial influence of Government must continue to be exerted in the direction of general credit ease and further monetary growth while the economy is recovering. Some further downward adjustments in interest rates, particularly those which have been slow to adjust in the recent recession, are clearly desirable, and certainly to increase them would choke off recovery."

Congressman Patman had inquired whether Chairman Martin would ask the Open Market Committee to take into consideration this statement of the President, and the Chairman had replied that he would be glad to see that every member of the Open Market Committee had a copy of the statement.

Chairman Martin said the record should show that the statement of the President had been brought to the attention of the Open Market Committee, as requested by Congressman Patman. The suggestion then was made that the portion of the transcript of the hearings relating to the questioning, and Chairman Martin's responses, concerning the President's statement be appended to the minutes of this meeting, with an indication in the minutes that the statement was given consideration by the members of the Committee, and it was agreed that this procedure would be followed. Accordingly, a copy of the pertinent portion of the transcript is appended to the minutes as Attachment A.

The Chairman referred next to the portion of the transcript in which Congressman Patman had asked him (Chairman Martin) whether he would furnish to the Committee the minutes of the Open Market Committee for the calendar year 1960. Chairman Martin had suggested to Mr. Patman that, in the interest of orderly procedure, the latter write a letter requesting those minutes for the use of the Joint Economic Committee, indicating that he (Chairman Martin) would place such a letter, if received, before the Open Market Committee for consideration. When Mr. Patman stated that he was not going to write such a letter and renewed his request, Chairman Martin had indicated that he would bring the oral request to the attention of the Open Market Committee at its meeting today.

Chairman Martin commented, after reading a part of the transcript, that he would propose, if the Open Market Committee was agreeable, to advise Mr. Patman that the oral request had been discussed by the Open Market Committee and that it would be willing to consider furnishing the minutes for 1960 if Mr. Patman transmitted a formal request in writing. In reply to a question, the Chairman pointed out that since Mr. Patman was Chairman of the Joint Economic Committee, it seemed questionable whether any letter to him should specify that any formal request should be made on behalf of the Committee.

Question was raised whether a letter from the Chairman to Mr. Patman should be in terms that if the latter wrote a letter requesting the minutes, they would be furnished, as opposed to saying that the Committee would be willing to consider a formal request. However, in further discussion certain reservations were expressed about possible consequences, from the standpoint of the effective functioning of the Open Market Committee, of releasing minutes of relatively recent date in their full form. Some of these considerations, it was suggested, were of such a nature that, if explained, they might cause members of the Congress to be reluctant about pressing a request that the minutes be furnished. As a possible alternative to furnishing the 1960 minutes, the thought was expressed that the Committee might want to consider making public the minutes for some prior period.

The comments made during this discussion indicated that at least some of the Committee members and other Presidents would like to give further consideration to the matter in the light of any formal request for the 1960 minutes that might be received. Accordingly, Chairman Martin renewed his earlier suggestion as to the type of letter that might be addressed by him to Congressman Patman.

The suggestion was made, and received favorably, that a letter to Mr. Patman might include the statement that if a formal request was received, the Open Market Committee might want to consult the Chairmen of the Banking and Currency Committees before taking action on the request in view of the relationships existing between those Committees and the Federal Reserve System.

At the conclusion of the discussion, it was agreed that any letter sent by Chairman Martin to Chairman Patman would be phrased along the lines proposed by Chairman Martin, taking into account the additional suggestions made at this meeting.

Chairman Martin then noted that there had been included on the agenda for today's meeting, pursuant to the understanding at the meeting on May 9, consideration of the publication of the record of policy actions of the Open Market Committee more frequently than on an annual basis. He suggested that this item be held over, with the understanding that the Committee would continue to consider the matter, and no objection was indicated.

In this regard, Mr. Hayes commented that there had been distributed to the members of the Committee prior to this meeting excerpts from his testimony before the Joint Economic Committee on June 1, 1961. These excerpts consisted of exchanges between Mr. Hayes and Congressman Reuss in which the latter requested that Mr. Hayes pass along to the Federal Open Market Committee for consideration the suggestion that the Committee publish its record of policy actions quarterly after a suitable time lag. Congressman Reuss also requested that Mr. Hayes pass on to the Open Market Committee the view that that Committee should adopt the suggestion of the majority of the Joint Economic Committee, as stated in the Joint Committee's report of January 1960, that "the Federal Reserve System . . . abandon its inflexible portfolio policy and, at least, weigh the desirability of changing its portfolio alignment." Mr. Reuss made the further statement that if the Open Market

Committee did not adopt the suggestion of the majority of the Joint Committee, it should tell the Joint Committee why it had not done so.

Mr. Hayes said he was calling these portions of his testimony to the attention of the Open Market Committee in fulfillment of the replies he had made to Congressman Reuss.

After discussion, it was understood, pursuant to a suggestion by Chairman Martin, that the portions of the transcript of the testimony on June 1, 1961, to which Mr. Hayes had referred would be appended to the minutes of this meeting. Accordingly, the excerpts from the testimony are appended as attachment B.

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, June 20, 1961.

Ralph A. Young

Secretary.