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, March 24, 1964, at 9:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Daane
Mr. Hickman
Mr. Mills
Mr. Mitchell
Mr. Robertson
Mr. Shepardson
Mr. Shuford
Mr. Swan
Mr. Wayne

Messrs. Ellis, Bryan, Scanlon, and Deming, Alternate Members of the Federal Open Market Committee

Messrs. Bopp, Clay, and Irons, Presidents of the Federal Reserve Banks of Philadelphia, Kansas City, and Dallas, respectively

Mr. Young, Secretary
Mr. Sherman, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Noyes, Economist
Messrs. Brill, Furth, Holland, Jones, Koch, Mann, and Ratchford, Associate Economists
Mr. Stone, Manager, System Open Market Account
Mr. Coombs, Special Manager, System Open Market Account

Mr. Molony, Assistant to the Board of Governors
Mr. Cardon, Legislative Counsel, Board of Governors
Messrs. Partee and Williams, Advisers, Division of Research and Statistics, Board of Governors
Mr. Axilrod, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Miss Eaton, Secretary, Office of the Secretary, Board of Governors

Messrs. Holmes, Eastburn, Baughman, Tow, and Green, Vice Presidents of the Federal Reserve Banks of New York, Philadelphia, Chicago, Kansas City, and Dallas, respectively
Messrs. Sternlight and Brandt, Assistant Vice Presidents of the Federal Reserve Banks of New York and Atlanta, respectively
Messrs. Eisenmenger and Lynn, Directors of Research at the Federal Reserve Banks of Boston and San Francisco, respectively

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on March 3, 1964, were approved.

Before this meeting there had been distributed to the members of the Committee a report from the Special Manager of the System Open Market Account on foreign exchange market conditions and on Open Market Account and Treasury operations in foreign currencies for the period March 3 through March 18, 1964, and a supplementary report covering the period March 19 through March 23, 1964. Copies of these reports have been placed in the files of the Committee.

Supplementing the written reports, Mr. Coombs said that the gold stock would remain unchanged this week for the sixth week in a row. Meanwhile, the Stabilization Fund had been acquiring gold through the London gold market where the Russians were heavy sellers last week. Total Russian sales last week amounted to approximately $150 million, of which $137 million was acquired by the Pool. Accordingly, he said, an interim distribution of $107 million was made on March 23, of which the

U. S. share was $67.5 million. The Pool still held another $40 million which would be available for distribution at the month end. Mr. Coombs said that unless there were some unexpected gold orders in sizable amounts, the U. S. should be able to get through at least the next month or six weeks without showing a reduction in the gold stock.

On the exchanges, Mr. Coombs continued, the major development had been the appearance of a potentially dangerous speculative attack on the lira. Governor Carli of the Bank of Italy had spent most of the week before last in Washington and New York in negotiating credit assistance. The package finally put together amounted to $1 billion, comprised of: (1) the $150 million remaining under the System's swap line with the Bank of Italy; (2) a Treasury swap of $100 million with the Bank of Italy, plus Treasury purchases of $33 million of lire for use in retiring the Treasury's lire bonds outstanding; (3) a Bank of England credit of $100 million; (4) a Bundesbank credit of $150 million; and (5) medium-term credits by the Export-Import Bank and the Commodity Credit Corporation in the amount of $450 million.

While this package was being negotiated, Mr. Coombs said, speculative pressure on the lira was building up rapidly and, on Friday of that week, the Bank of Italy lost $60 million in defense operations while the one-month forward lira went to a discount of nearly 10 per cent. In this atmosphere it seemed desirable to make an immediate announcement of the program over the weekend. The exchange market subsequently reacted very favorably. The discount on the three-month forward lira narrowed to 3 per cent and the Bank of Italy seemed to have taken in some dollars during the past week. While in Washington, Governor Carli also negotiated an Italian drawing on the Fund in the amount of $225 million which might be employed to repay the Bank of Italy's drawings of $150 million on the swap line with the System.

Mr. Coombs reported that the speculative drive on the lira that occurred on March 13 had been accompanied by a heavy inflow into Germany which the System had absorbed in part by a further drawing on the mark swap. Since then, the German mark market had remained in reasonable balance. In addition to the Bundesbank's program of dollar swaps with German commercial banks, which Mr. Coombs had mentioned at the last meeting of the Committee, the German Government had subsequently prohibited the payment of interest on nonresident time deposits and also had sharply increased reserve requirements against foreign deposits. Today, the German Government was announcing a proposal to apply a withholding tax on income derived from foreign investment in German securities. Meanwhile, the operations in the spot and forward markets in German marks apparently had had a reassuring effect. Mr. Coombs thought that all of these measures in combination should have a useful effect in restraining the short- and long-term inflows into Germany.

In the case of the Swiss franc, there still was not a sizable outflow of funds from Zurich, mainly owing, Mr. Coombs thought, to a further tightening of credit lines there. As a consequence, progress in repaying the System's Swiss franc swap drawings remained disappointingly slow--only $15 million had been repaid so far this month--and the System's debtor position under the Swiss franc swap lines remained at the very high level of $205 million. In April, however, negotiations might be completed for further Treasury issues of Swiss franc obligations which might give the System an opportunity to repay as much as $75 million in one operation. There was also the possibility that the Swiss National Bank might extend short-term credits to the Bank of Italy which would open up further scope for the System to acquire Swiss francs against dollars and reduce its swap drawings correspondingly.

Mr. Hayes remarked that in the course of the negotiations on the Italian problem it had been suggested that the System enlarge its swap line with the Bank of Italy. He thought it was gratifying that the negotiations had been completed without an increase in the line and he found it particularly gratifying that there was some European participation in the arrangements that had been made. There was plenty of money in Europe, Mr. Hayes said, and short of a real crisis it seemed sensible for the System not to stretch its position.

Mr. Scanlon noted that in the staff paper on Italian developments circulated under Mr. Young's memorandum of March 9, 1964, the question of an increase in the Italian swap line had been raised. He asked whether the Italians themselves had pressed for such an increase.

Mr. Young said that the matter had arisen in the course of the discussions, but there had been no pressure. After consideration, it was decided that the best approach would be to elicit some funds from Europe. If these funds had not been available the problem would have been more acute, and the System might have had to enlarge the swap. If the Italians encountered additional needs it was possible that they would still request an enlargement of the swap line, but it was not likely that any such request would be made until later this year or until next year, if at all.

Mr. Mitchell asked how the $450 million medium-term credits extended to the Italians by the Export-Import Bank and the CCC would be disbursed.

Mr. Furth said that of the total $200 million credit granted by the Export-Import Bank, $100 million had been made available more or less as a balance of payments loan; that is, on a basis similar to that of the Export-Import Bank loan made to the United Kingdom at the time of the sterling difficulties in 1956. The loan was tied to U. S. exports, though not necessarily to additional exports. But this point was of little significance because Italy's imports of capital goods from the United States were so heavy that there were always some orders that could qualify as "additional" shipments. The remaining $100 million would be allocated for individual projects to be submitted at a future date. The CCC loan was tied to additional exports of foodstuffs.

Mr. Mitchell commented that he thought the Italians were trying to restrict imports, and Mr. Furth said that this objective related primarily to consumer goods, particularly autos, but not to capital equipment, for which their needs continued heavy. Food imports were involved because there had been a revolution in patterns of food consumption with rises in the Italian standard of living.

Mr. Robertson said that if a real need developed in Italy which could not be met abroad, he would hope there would be no reluctance on the part of the Committee to permit the Italians to draw on the full swap line, nor to increase the size of the line if necessary. Mr. Daane said he shared this view. Mr. Hayes said he would feel no hesitancy about drawings on the existing $250 million swap line if there was a real need, but he thought that the Committee should give any proposal to increase the size of the line close examination.

Mr. Coombs said that a sizable increase in any one swap line in the absence of a serious emergency might create expectations of a third round of general increases, and might therefore be undesirable. Also, he thought the Committee would want to encourage European central banks to carry part of the burden, and not leave it wholly to the U. S.

Mr. Daane commented that other European countries had reacted quite negatively to the Italian credit assistance package because of their feeling that Italy's program for dealing with its balance of payments problem did not go far enough to be effective, and that the package reduced the pressure to take effective action. Mr. Coombs added that there also was some question of whether the Italians had been sufficiently active in soliciting help from others.

Mr. Ellis noted that the French were not taking part in the program of assistance to Italy. He asked whether there was any possibility of improving the techniques used in negotiations of this type in a manner that would result in French participation.

Mr. Coombs replied the Bank of Italy had not approached the Bank of France. Mr. Daane commented that the program had been put together quickly, because of the rapid deterioration in the Italian position. As a result, there was a mechanical problem in bringing many countries in. Chairman Martin added that the Italians had experienced a real run on Friday, March 13. This precipitated the closing of the package; otherwise the arrangements might have been worked out over a period of several weeks.

Mr. Coombs said he thought it would be desirable for the System's swap network to be supplemented by arrangements among the European countries themselves. The Bank of England, he noted, had solicited help from continental countries as well as from the U. S. when they had encountered difficulties in the past. The important principal, he thought, was that European countries should rely on one another as well as on the U. S.

Mr. Robertson said he also felt that this principle was important. However, in any case of real need, he did not think the System should withhold assistance simply because it might disrupt its network of swap arrangements. To this, Mr. Coombs responded that it was most important to hold the swap network together.

Mr. Mitchell commented that he thought the Committee had to keep the problems of this country in mind at all times. It was desirable to help other countries, but he was disturbed by the fact that such aid could contribute to gold outflow. There were limits to the capacity of the U. S. to assist foreign countries, particularly since it was far from clear that the balance of payments problem had been solved.

Mr. Daane said that he appreciated the argument for symmetry with respect to the network of swap arrangements but in a case of need he did not think that symmetry was sacrosanct. In any case, the Italian drawings on the existing line probably would be repaid relatively soon out of IMF drawings or other borrowings.

Mr. Balderston noted that the Italians had come to the assistance of the U. S. in the past.

Chairman Martin commented that there appeared to be general agreement that adequate credit facilities should be provided, and credit made available as needed. The Committee would have to give continuing attention to the question of the methods to be employed in particular circumstances. This was a subject on which the Group of 10 might make recommendations.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the System Open Market Account transactions in foreign currencies during the period March 3 through March 23, 1964, were approved, ratified, and confirmed.

Mr. Coombs recommended renewal of five swap drawings maturing shortly: three with the Bank for International Settlements, for $35 million, maturing March 30; $50 million, maturing March 31; and $25 million maturing April 7; one with the Swiss National Bank, for $20 million, maturing March 31; and one with the Netherlands Bank, for $25 million, maturing April 2.

Mr. Mitchell inquired whether these would be first renewals, and Mr. Coombs replied that two of the cases involved first renewals and three involved second renewals. No precedent would be established by the second renewals; last year, in fact, there had been some cases in which three renewals of a drawing had been made.

Chairman Martin commented that the Committee's practice had been to limit drawings to one year, but not to interpose objections to renewals within that period.

Renewal of the five swap drawings, as proposed by Mr. Coombs, was noted without objection.

Mr. Coombs recommended renewal of five reciprocal currency arrangements, with the following banks, maturity dates, and amounts: the Bank of Sweden, maturing April 17, for $50 million; the Bank of Italy, maturing

April 20, for $250 million; the Swiss National Bank, maturing April 20, for $150 million; the Bank for International Settlements, maturing April 20, for $150 million; and the Austrian National Bank, maturing April 24, for $50 million. All of these arrangements had been for a term of three months, with the exception of that with the Bank of Italy which was for six months, and the renewals would be for corresponding terms.

> Thereupon, upon motion duly made and seconded, renewal of the five swap arrangements, as recommended by Mr. Coombs, was approved.

Mr. Coombs noted that the Committee had authorized various types of forward operations up to a combined total of $150 million. One of these types of forward operations was the purchase through spot transactions and sales through forward transactions of foreign currencies for the purpose of restraining short-term outflows of funds induced by arbitrage considerations. During the past three weeks, he said, such a risk of arbitrage had appeared in the case of Canada, where the forward Canadian dollar was in heavy demand as a result of a resumption of sizable Russian wheat purchases. While the System would have been prepared to undertake such operations for its own account, the Bank of Canada, for various technical reasons, preferred to conduct the operation itself. This had involved Bank of Canada sales of U. S. dollars spot and purchases forward with the result that a sizable although temporary reduction in the Bank of Canada's reserves--perhaps as much as $75 million--had occurred. To smooth out this temporary distortion of their reserve position at the end of March, the Bank of Canada had asked the System to execute a month-end swap, i.e., buying Canadian dollars spot on March 31 and selling them forward for value on April 1. This was the type of operation, Mr. Coombs said, that the System would have conducted with the Market if it had been operating on its own account. He believed that it fell within the authorization granted by the Committee. However, since the operation had some unusual features, he thought he should bring it to the attention of the Committee.

Chairman Martin asked Mr. Coombs whether he saw any dangers in this operation, and Mr. Coombs said he did not. The only question in his mind was whether the authorization in question was given a broad enough interpretation by the Committee to cover this type of operation.

Mr. Swan asked for information on the technical reasons for which the Bank of Canada had preferred to conduct the operation itself. Mr. Coombs said that if the System had undertaken the operations, it would have bought Canadian dollars spot and sold them forward. With the Canadian dollars so acquired, the System could have picked up a relatively large part of the Canadian weekly bill tender, and if the operation was sizable this might have created a money market problem for the Canadians. On the other hand, their reserves were run down when they conducted the operations. Mr. Coombs thought a good compromise had been worked out, under which the Canadians operated during the month and the System took over their position temporarily at month end.

Mr. Mitchell commented that the proposed operation seemed to him to come close to endorsing an objectionable type of window dressing. Central bank intervention in foreign exchange markets as well as in domestic markets always had dangers, and those dangers had been the subject of considerable discussion by the Committee when it initially undertook foreign exchange operations. Superficially, at least, an agency such as the System that had been concerned with window dressing activities of commercial banks might look silly if it endorsed window dressing by central banks. The operations Mr. Coombs proposed did seem to be innocuous, Mr. Mitchell said, but he felt that there was some obligation to permit what actually was going on to be revealed.

Mr. Coombs said that the bulk of Canada's forward operations were for one month, and the contracts would mature in early April. Thus, the reduction in Canadian reserves in March would be completely reversed in early April. He did not regard the proposed operation as window dressing, but rather as correcting an abnormality. The Canadian operations were to the benefit of the U. S. in restraining arbitrage outflows. It appeared to him that the most valid description was that this was a smoothing operation to eliminate a distortion.

Mr. Robertson commented that he would have preferred to have had a memorandum explaining the proposal in advance of the meeting, and he would like to have an explanatory memorandum even if the Committee approved it.

Mr. Coombs commented that no memorandum had been sent to the Committee in advance because the question had been raised quite recently, but he would have one prepared now. He added that an operation identical to this had been carried out last fall at the time of the Russian wheat purchases. The Bank of Canada had intervened in the market to minimize arbitrage flows from the U. S. to Canada, and at the month end the U. S. Treasury had taken over the position for a few days. It was shortly thereafter that he had requested authority to engage in forward operations for the purpose of restraining arbitrage flows.

Mr. Deming said he had no objection to Mr. Coombs' suggestion. However, he wondered why the Canadians regarded publication of figures showing a $75 million reduction in reserves so seriously, particularly since they could explain the loss to the public just as Mr. Coombs had explained it to the Committee. Mr. Coombs replied that the Canadians were concerned because the figures in themselves affected attitudes even though there might be a valid explanation for them. Many people might react to the fact that there had been a reserve loss, and not bother to read published explanations.

Chairman Martin suggested that the Committee approve the proposal with the understanding that a memorandum concerning operations of this type would be prepared. No objection to this suggestion was raised.

Before this meeting there had been distributed to the members of the Committee a report from the Manager of the System Open Market Account covering open market operations in U. S. Government securities and bankers' acceptances for the period March 3 through March 18, 1964, and a supplemental report covering the period March 19 through March 23, 1964. Copies of these reports have been placed in the files of the Committee.

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

> System open market operations were relatively modest in size and frequency during the past three weeks. Movements in market factors tended to be mutually offsetting to a large extent and moderate System operations sufficed to maintain a generally firm money market through the period. Financial flows associated with the March tax and dividend dates were accommodated smoothly--which has been the typical experience with such periods in the recent past. There were day-to-day variations against the underlying steady background, however, in the course of which Federal funds temporarily traded as low as 2 per cent while daily member bank borrowings ran the gamut from $33 million to $953 million.
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> Marginal reserve availability averaged lower than in the preceding several weeks, in good part reflecting retroactive revisions in the reserve estimates. Thus on Wednesday, March 18, it was projected that free reserves in the week ending that day would be about $135 million. While it was anticipated that revisions might pull the figure down to about $100 million, it now appears that unexpected movements in market factors and additional retroactive revisions resulted in a level as low as $7 million. A counterpart of the lower margin of free reserves has been the return of a larger excess of required reserves over the Board staff reference line.
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> With money market conditions essentially steady and no particular pressures arising over the tax and dividend dates, Treasury bill rates continued to fluctuate in a comparatively narrow range. Rates edged lower through the first several days of the period, as the market gained confidence that England's Bank rate increase would not be followed by an immediate discount

rate increase in this country, and as the money market--despite somewhat lower free reserve figures--tended occasionally to the easy side of its recent range of variation. Bill rates were largely steady after March 9, although verging slightly higher at times as some increased firmness came into the money market in the second half of the period. The average issuing rates in yesterday's bill auction--about 3.55 and 3.74 per cent for the 3- and 6-month issues, respectively--were each about 4 basis points under the rates three weeks ago.

In contrast, the longer term securities markets generally moved lower in price and higher in rate during the period. While market participants in these sectors, too, expected no immediate tightening of domestic credit conditions, many observers felt that a change was probable some time within the next six months. The Treasury note and bond market was affected particularly by a desire of banks to trim their portfolios of short intermediate maturities, in response to current and anticipated reserve needs. The market has also been affected by a desire of dealers to move into sizable short positions in the over-5-year maturity range--in part as a hedge against their long 1-to-5 year positions. Over the period, prices of issues out to 5 years declined as much as 15/32, while most longer issues were down 1/2 to 3/4 point.

Prices also softened in the corporate and tax exempt markets as investors hesitated to commit funds that they thought might be employed more profitably at a somewhat later date. In the case of tax exempts, there is also the question of whether commercial banks will remain as large buyers as they have been in the past year or two.

Within the next day or two, the Treasury will have seen enough of its March tax receipts to decide whether it must borrow additional cash before mid-April. and if so, what amount and form that borrowing should take. The maximum contemplated need is $1.5 billion, although the actual need could turn out to be considerably less. Given the heavy tone in the bond market, it is anticipated that any such borrowing would be of short maturity, possibly in the bill area.

Following this statement, Mr. Stone noted that the Committee had indicated at its last meeting that it wished to review its present Account allocation procedures. It was his understanding, he said, that the Board's staff expected soon to complete a memorandum outlining a proposal that had been mentioned at the December 3, 1963 meeting of the Committee, under which securities rather than gold certificates would be used in the daily interdistrict settlement. If the Board agreed, the proposal would be sent for comment to the Presidents of the Reserve Banks. He thought it would be desirable for the Committee to defer its review of allocation procedures until the next meeting or the one following, because this proposal might have a considerable bearing on the matter.

Mr. Mills suggested that the members of the Committee consider the proposal Mr. Stone had mentioned very carefully, against the background of the debate that had taken place in the Congress during the past week. A majority of the Joint Economic Committee, he noted, had advocated removal of the 25 per cent gold reserve against notes and deposits. The proposal had been vigorously protested by other members of the Congress, most importantly by Senator Robertson, Chairman of the Senate Banking and Currency Committee. The Senator had brought out in his speech to the Congress the fact that there was a discipline to the gold reserve that should be maintained and that there was a formula to maintain that discipline through a tax on deficient reserves. The Committee should consider whether the proposal would run contrary to the reasoning of Senator Robertson and others and also whether it would run contrary to the statement the Board had made in a letter to Senator Douglas on November 5, 1963, regarding the 25 per cent gold certificate reserve requirement. In his judgment, these were considerations of great importance.

Chairman Martin commented that he thought all members of the Committee should be alert to the points Mr. Mills had raised, and should study the problem carefully.

Mr. Scanlon noted that on Thursday the Account had bought securities in the intermediate area, and asked what reasons lay behind the action.

Mr. Stone replied that the Account had been out of the coupon market for some time--about four months--and it was important to keep the machinery in good working order. More generally, he thought it was the position of the Committee that the Desk should participate in the coupon markets in a marginal way, as it had in the past. It was his understanding that the Committee did not want to disengage from these markets. There had been a substantial availability of coupon issues in the market last week, as there had for some weeks, and the Desk had bought about $22 million. The size of the operation deliberately had been held down to avoid any implication that the purpose was to assist the Treasury.

Mr. Mitchell observed that the market seemed to have come to the conclusion that the System had retreated from operations in longer term securities. Mr. Stone said there were some participants in the market who were vigorously opposed to such operations, and who would like to see their demise. But he did not think the market generally was of the opinion that the System had reverted to a "bills only" policy. However, it had not been possible to operate in coupon issues for some time. The Treasury's advance refunding blocked out most of January, and the

February refunding was in process until the 15th of that month, or a few days thereafter. Then the British Bank rate was increased, and Treasury bill rates rose. At the time of the Committee's last meeting the 3-month bill rate was about 10 basis points above the discount rate, and for that reason he thought it important to supply any necessary reserves through operations in bills. Since the last meeting the Account had had little occasion to supply reserves, and it took the opportunity to buy coupon issues on Thursday.

Mr. Hayes commented that January and February was a seasonally low period for System purchases. For example, the System had supplied somewhat over $1-1/2 billion in reserves during 1963, but of this total only about $30 million were supplied in the first two months of the year. Mr. Stone added that these were months in which the Treasury typically was active in the market.

Mr. Mitchell said he would like to get the Desk's interpretation of the Committee's intent on operations in coupon issues, and asked whether Mr. Stone felt any inhibitions about operating in such issues. Mr. Stone replied that he did not. As he conceived it, the Committee's policy was that the Desk should participate in the intermediate and longer term sector with operations of the same general character as those that had been undertaken over the period since the Committee had authorized such operations. The essence of this character was that operations in coupon issues should be marginal with respect to the total volume of activity in that area of the market, in order to minimize direct price effects. This meant confining purchases to periods when there was a substantial volume of securities available in the market. He had no inhibitions about operations within this framework.

Mr. Mitchell then noted that the Desk operated in the bill area with rate objectives in mind, and asked if Mr. Stone felt that the Committee had given him authority to operate in longer term markets with similar objectives, particularly in view of the Chairman's statement at the previous meeting on operations in these markets.

Mr. Stone said he did not think that the Committee intended the Desk to attempt to fix prices of longer term securities. However, he would feel no compunction about buying coupon issues when there was a need to supply reserves, as long as the operations were within the framework he had just described. Over the next two or three weeks, for example, the Account would have to supply a substantial volume of reserves, and he would contemplate doing part of the job in the coupon area, insofar as such operations would not interfere with the Treasury financing. That would be in keeping with his interpretation of the Committee's intent.

In effect, then, Mr. Mitchell said, the Desk would operate in the coupon area to protect the short-term rate, but not to pull down the longer term rate. Mr. Stone replied that he would not want to stand in the way of a price adjustment that reflected a reassessment of conditions by the market and a new consensus about the outlook for security prices.

Mr. Robertson said that in his judgment it was unfortunate that the Desk had moved out of the short-term area in the absence of any obvious, worthwhile purpose. He did not think any purpose had been served by last week's operation except to show the Committee's hand. Such operations could confuse the market with respect to the Committee's objectives, and could make participants wary. They also tended to preclude the market from giving the Committee the kinds of signals that would be received if the market was as close to free as possible. Although the policy of the Committee was to operate in all maturities, he thought coupon operations should be confined to periods when they would serve some real purpose.

Mr. Hayes said that in his judgment the quality of the signals from the market was preserved when the Manager operated in the coupon area with such caution and in such a small way. He felt it was important to let the market know that the Committee was prepared to operate in the longer term area. There was danger in encouraging the kind of rumor that was going around to the effect that the System was permanently out of the coupon area, because when operations in this area became necessary they might tend to disrupt the market. It was better, in his judgment, for the market to view System operations in coupon issues as a normal thing.

Chairman Martin remarked that there had been some discussion of this subject at a recent Board meeting, and the suggestion had been made that longer term operations should be undertaken more frequently, to prevent rumors that they had been discontinued. He thought Mr. Robertson's point was good that such operations should not be engaged in for their own sake. But a better over-all picture might result if they were undertaken whenever an opportunity to operate marginally presented itself, and more frequently than every three or four months. His comment, the Chairman noted, was directed to the future and not to the past.

Mr. Mills said he might point out that the Chairman's statement represented the sense of the thinking of some members of the Board, but it was not a unanimous view. Chairman Martin added that Board members unquestionably were divided on the subject.

Mr. Swan said he had been rather surprised that free reserves could fall as low as they had in the past two weeks without greater effect on the feel and tone of the market. Was it the case that the market had not reacted more strongly to the lower free reserve figures because they made the same misses in their estimates as the Desk had; or had there been some more basic change in the total picture; or, as he suspected, did it reflect the fact that at this point the short-term area seemed more attractive to investors than the intermediate and longer term area did, in view of their expectations for security prices?

Mr. Stone said he thought it was true that some of the recent demand for short-term securities involved funds that later would move into intermediate and longer term areas, as he had suggested in his statement. In his judgment, however, the basic reason for the relative steadiness of the money market recently was that participants had by no means concluded from the lower free reserve figures that monetary policy had changed--despite the fact that one journalist had made a statement to that effect. People in the market fully understood that free reserve figures fluctuated, and that the center of the range recently had been about $100 million, with the weekly figures sometimes above and sometimes below this level. However, given changes in the rate of reserve utilization, it was perfectly possible to have the same tone and feel with free reserves at $175 million at one time and at $35 million at another.

Mr. Swan asked whether the tone and feel at the present lower level of free reserves were the same as earlier. Mr. Stone replied that the Desk did not have enough perspective on the matter as yet, but might be able to tell in the next week or two whether there had been any fundamental change.

Mr. Wayne commented that he had been on the daily call for the past three weeks, and throughout the period he had been disturbed, and the Account Management had been disturbed, by the misses in reserve projections. Journalists had to discuss something, and the only figures that fluctuated much were those for free reserves, so they wrote about them. He thought the Desk and the System were in a somewhat embarrassing position because the free reserve figures were not reliable and it was hard to improve them. The Desk had to make its decisions each day on the basis of the feel of the market that day; and then, a week later, it discovered that the data were being revised downward. Later revisions in figures tended to creep into the market thinking. He would hope that some means for improving the figures could be found, but he personally did not have the answer.

In response to a question from Mr. Daane, Mr. Stone said that it obviously would be necessary to supply reserves over the coming statement week, since the Desk's projections indicated net borrowed reserves of $142 million. He would expect to begin putting reserves in today or tomorrow.

Mr. Daane said it seemed to him to be particularly important that the Desk get a running start in supplying reserves. This was the eve of a Treasury refinancing, and it would be unfortunate to seem to confirm the recent low free reserve figures with another low figure. A figure on the high side would be all to the good.

Mr. Wayne said that he agreed; any error this week should be on the high rather than the low side.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions in Government securities and bankers' acceptances during the period March 3 through March 23, 1964, were approved, ratified, and confirmed.

Chairman Martin then called for the staff economic and financial reports, supplementing the written reports that had been distributed prior to the meeting, copies of which have been placed in the files of the Committee. Mr. Brill commented on economic conditions as follows:

> The silly season seems to have started for economists a little before the rest of the country. Clutching at tax-cut straws is a major preoccupation of the profession these days, with each retail trade figure scrutinized for evidence that the increase in take-home pay is being taken to the local auto or appliance dealer, and each announced corporate spending plan evaluated against pretax-cut surveys.
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> The plain fact is that we know almost nothing yet about the specific impact of the cut. The first week and a half of aggregate data on post-tax cut retail sales show continued strength--at about the February record levels--but these weekly data have in the past been erratic, and in other years the high level of sales might as easily have been attributed to an early Easter. Auto sales have continued exceptionally strong, but production has been more than adequate and dealer inventories have been increased to desired levels. As a result, production schedules for the balance of this month and next have been reduced.
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> The latest output and employment data available predate the tax cut. They show a small rise--half of one per cent--in the industrial production index from January to February, continued growth in employment and the labor force, and a drop of 2/10 of one per cent in the unemployment rate.
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> The recent upping in business capital spending plans also antedates--even though it may have anticipated--the tax cut. It is encouraging that businessmen plan a resumption of increased spending after the winter plateau, but the rise now expected in the second half of this year is neither as much nor as rapid as was the rise from the first to the second half of 1963. Thus, all we can conclude at the moment is that the economy was enjoying continued moderate upward momentum and that expectations were high at the time the tax cut became effective; and that the situation calls for more "watchful waiting."
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> Among the areas we are watching closely, of course, is that of prices, and in this we have lots of company, with Administration economists sharing the concern. Administration concern, however, as evidenced in the official statements and staff

analyses we have seen, seems to focus too narrowly on the dangers of cost-push inflation, particularly on the possibility of excessive wage settlements in key industries, and gives too little recognition to other factors which can prove just as upsetting of price stability. Moreover, it puts perhaps too much reliance on the excess of available production facilities and manpower over prospective aggregate demands. Projections of the economy for 1964, as presented in the Budget and Economic Message, imply that the growth in activity will be gradual and will still leave relatively large margins of unused industrial capacity and labor by year end. Along with rising profit margins, these would serve to limit the likelihood of price increases.

This argument is plausible, particularly since it seems to have worked in 1962 and 1963. Some reservations are in order, however. The progress of the economy may not be as smooth as projected--it rarely is--and a bunching of demand, particularly in conjunction with rising activity abroad, could result in price pressures for a variety of industrial materials, such as we have already seen in the nonferrous metals area. There are other industries, notably paper and textiles, in which output is already high relative to capacity.

One might also legitimately express some concern over the relatively low level of producers' stocks, which to date have been regarded as evidence of business moderation. Caution in inventory policy has indeed contributed to the fairly stable expansion so far; manufacturers' inventories are unusually low for so late a period in a cyclical expansion. A surge in final demands, however, could easily precipitate a bunching of orders and a "hurry up and deliver" atmosphere that has in the past been conducive to price boosts.

On the cost side, one can hope that the recent pace of productivity gains in manufacturing will continue, and will offset the wage increases likely to follow robust profits reports. Business emphasis on plant modernization will work in this direction. Short-run developments in productivity, however, tend to be unpredictable. Moreover, productivity increases in manufacturing may not curb labor costs in the trade, service, and construction areas, where wage increases in recent years have probably been higher, proportionately, than in manufacturing. With prices firming and consumer demands for services strong, continued wage gains in the services and distribution sectors could push the consumer price index up somewhat faster than recently, triggering other wage demands.

The future is obviously fraught with more dangers than just that of an excessive wage settlement in the auto industry.

These potential dangers cannot be translated into present inflation, however. Despite stirring in a few areas and the usual "scare" stories in the press, stability in over-all price measures is still being maintained. The industrial price average is up only one half of one per cent from a year ago and is no higher than the recession-trough level. Similarly, wholesale prices of foods and foodstuffs show no net change over the past three years. On the labor cost front, recent wage settlements continue moderate, conforming to the pattern of gains that has prevailed over the past several years, well within the framework of industrial productivity increases.

The major trouble spot recently has been in the cyclically volatile prices of nonferrous metals and products, which have responded to the high level of demand here and abroad. Some of the pressure in these markets could be offset by further Government actions. Recent sales from the stockpile took most of the steam out of the tin market. For lead and zinc, stockpile holdings are very large. While these surpluses cannot be sold without legislative authorization, import quotas could be altered or removed by proclamation of the President after hearings and a recommendation by the Tariff Commission. Such hearings have been scheduled for late June.

In summary, prices and costs are still continuing the remarkable and desirable stability that has characterized the economic expansion to date. There is at least a fighting chance that this stability can be maintained, if the expansion continues orderly and if the Administration is willing to couple hard actions, where it has the discretion, with open-mouth policy. Current data do not suggest the need for other measures of restraint, at least not until there is more evidence that the cost and price situation is changing.

Mr. Holland made the following statement concerning monetary and credit developments:

As Mr. Stone has indicated, short-term financial markets took the March tax pressures very much in stride, even though a larger amount of corporate payments had to be accommodated. Partly reflecting these larger flows, bank credit expanded considerably more than usual over the first three weeks in March. In fact, this represented the first more-than-seasonal increase in bank reserve use in almost two months, and raised the average annual rate of expansion since last July to 3.5 per cent in reserves required against private demand deposits and 15.5 per cent in required reserves against time deposits.

Tax and dividend date developments did not seem to suggest that any important fraction of American businesses was beginning to feel the pressure of needs for funds. Business loans at city banks rose less than last year (even after allowance for a special public utility term loan repayment this year) despite larger corporate tax liabilities. The major asset expansion at banks came in credit to dealers and finance companies and in holdings of Treasury bills, as corporations made tax payments by drawing down their holdings of these kinds of paper. Corporations also liquidated some of their CDs, not only those purchased from American banks but possibly also some bought from Canadian banks. Yet, while businesses held over a third of a billion dollars of negotiable CDs maturing at major New York City and Chicago banks on the tax and dividend dates alone, these banks managed to find new buyers for almost an equivalent amount of new CDs by temporarily sweetening the rates which they were willing to pay. The end result can be taken as evidence that corporations as a whole are still in a comfortable liquidity position; and the comments just made by Mr. Brill concerning their large cash inflows, relatively low inventories, and moderate increases in capital outlays help to explain why.

Data from the consumer sector, however, appear to be telling us a somewhat different story. Personal-type interest-bearing liquid asset holdings, while still growing, have been increasing at a distinctly slower rate than last year. On the other hand, we do not know how much of the recent moderate money supply expansion has moved into consumer hands, although there are no signs that they received a disproportionate share. Considering that all this took place while personal income was continuing to advance to new highs, the inference is that individuals have been diverting an appreciably larger proportion of their resources into either less liquid financial assets or into purchases of goods and services. But exactly where such flows may be going is hard to divine. The stock market has been strong, and trading volume very substantial, but the classic signs of greater small-investor participation are still lacking. The tax-exempt market has experienced greater investor demand than many expected this year, but this can be largely accounted for by a brief resurgence of commercial bank buying. Consumer purchases of autos have been strong for some time, and takings of furniture and appliances have stepped up recently, but the timing and the dimensions of these changes are not such as to be attributable to reduced liquid asset acquisitions with any degree of certainty. As you can judge, the precise shift that has taken place in consumer asset allocation is still unclear. Nonetheless, whether the slackened accumulation of personal liquidity has reflected a shift in favor of less liquid financial assets, real investment, or consumption, its effect on the economic environment is likely to have been salutary--and to continue to be so, as long as the movement is a moderate one.

Bank liquidity, meanwhile, has been bolstered a bit by some fairly aggressive banker sales of intermediate-term Governments and purchases of bills during March. Partly, this may be a reaction to loan-deposit ratios that have been inching higher; partly, it may be an adjustment to previous portfolio lengthening in January and February through takings of tax-exempts and participations in Treasury financings; and partly it reflects precautionary action in anticipation of future loan demand and interest rate increases. The dimensions of these adjustments have not been large enough to dull significantly the responsiveness of banks to any change in Federal Reserve policy; but they have been enough to shake the confidence of the intermediate-term Government securities market.

Dealers, feeling equally uneasy, have also been unloading Governments of intermediate and longer term. The consequence has been a back-up of yields on most Government securities beyond the short-term maturity area to new high levels for this expansion.

The Treasury is faced with an unerviable task in raising about $1.5 billion cash in this market. Even if that financing, when announced, is held to a short-term instrument, a particularly careful "even keel" in monetary policy seems to be called for until the next meeting of the Committee. It is fortunate, in this context, that the circumstances of the last few weeks seem to have conditioned the money market to accept a slightly greater range of short-run fluctuations with some equanimity. This is more a matter of changed attitude than of altered experience. Three-month bill rates, for example, have moved within a range of 7 basis points since the British Bank rate increase; this compares with a range of 5 basis points that prevailed in each of the earlier months. Nonetheless, market participants seem to have come to accept the fact that there is a little wider range within which their own pricing and trading judgments can hold sway. This, it seems to me, is all to the good. The gain thus far, however, is a modest one. As has already been discussed, the low free reserve figures that eventuated in the past two weeks have given rise to comment, even though money market conditions have remained essentially stable. My own impression accords with Mr. Swan's, that the money market has been cushioned from the slight decrease in reserve availability because of the inflow of money seeking to go short as an interest rate hedge. As a result, any efforts to move marginal reserve availability back closer to the averages of the earlier weeks this year might have to involve slightly lower money market rates. That might in fact be a reasonable development to allow for a time, for it would represent a natural way for short rates to respond to the current bank shift toward more liquid instruments.

Mr. Furth commented on the balance of payments as follows:

The United States has made unexpectedly rapid progress towards eliminating its international deficit. In January, the deficit was still at an annual rate of about $1-3/4 billion, close to the level recorded in the second half of 1963. In February, the deficit was greatly reduced. And the tentative figures for the first three weeks of March suggest a considerable surplus for this period, large enough to permit some hope that the first quarter as a whole may, for the first time since 1957, show virtual equilibrium, even after adjustments for extraordinary receipts and for seasonal factors.

Needless to say, even if the last two weeks of March do not show renewed deterioration and the final figures confirm the preliminary data, this would not necessarily mean that the U. S. payments problem has been solved for good. International conditions in the present quarter may well turn out to have been abnormally favorable for the U. S. payments position.

First, economic expansion in many countries that are among our best customers may have proceeded at an unsustainable pace. The leading nations of Continental Europe are willing and able to take effective action to correct a trade deficit--although a curious mixture of mercantilistic and laissez-faire ideology, coupled with institutional rigidities and reluctance or perhaps incapacity to use the full potentialities of modern fiscal and monetary policy instruments, makes them less apt to correct an excessive trade surplus. Hence, France, Switzerland, and Italy, as well as Japan, have taken anti-inflationary measures to reduce their trade deficits. After a lag, these actions may be expected to curb U. S. exports not only to those countries themselves but also in third markets in which U. S. goods compete with Japanese and European products. In contrast, Germany had so far done nothing to reduce its trade surplus except excoriate its neighbors for overimporting German goods.

Second, recent months have seen considerable flows of funds out of countries whose currencies were under attack: to a modest degree out of Britain before the rise in British Bank rate; and in far greater volume out of Italy until the recent announcement of the stabilization credit "package." While there are no reports about substantial flows of funds from those two countries to the United States, it would be surprising indeed if the reserve losses of those countries, which amounted to $230 million in February and $200 million in the first half of March, had benefitted exclusively other European countries. It seems reasonable to assume that some funds have moved to the United States, including U. S. funds previously held abroad. British and Italian reserve losses have now apparently ceased; and this may well mean the cessation of some reflux to the United States. Something similar happened after the Canadian stabilization in 1962; and while U. S. money markets have, of course, much closer relations with Canada than with Italy or even Britain, the 1962 experience should be a warning against complacency.

Nevertheless, the psychological consequence of a quarter without a substantial U. S. payments deficit might well be even greater than its purely financial significance. The improvement would come at a time when the discussions within the Group of Ten on the future of the international payments system are reaching a critical stage. The Group will soon have to decide whether it will unambiguously endorse further organic evolution of the present system, based on the predominant role of the dollar as a means of international settlements and as a reserve asset; or whether it will lean toward a replacement of that system in accordance with one or the other of recent proposals that would aim either at restoring some kind of gold standard or at creating some kind of international reserve unit; or whether it will try to skirt these vital issues and thereby risk contributing to continued uncertainty in the international financial community, and in exchange and gold markets, about the future of the payments system.

Convincing evidence of progress towards U. S. payments equilibrium would obviously give strong support to the first type of solution. And the recent U. S. initiative in helping Italy to overcome its payments difficulties has apparently already had a similar effect. A few days ago, a French financial newspaper, which is believed to have close relations to some government circles, bitterly attacked that initiative, complaining that the Italian stabilization program indicated a "belief that the tide has turned for the dollar and that the golden days of French finance are over;" and that it might be regarded as "proof . . . that the European solidarity is fiction and that in serious matters the only real power is the United States and its currency, the dollar."

The French Government has denied that these views reflect its official position. Nevertheless, the newspaper's statement may well be close to the truth.

Chairman Martin then called for the usual go-around of comments and views on economic conditions and monetary policy beginning with Mr. Hayes, who commented as follows:

The business outlook seems to have strengthened further in the past three weeks. A key factor in this improvement has been the growing evidence, both in the new Commerce-SEC survey, and in a number of announcements by individual companies, that business expenditures on plant and equipment will increase much faster this year than in 1963. It is too early, however, to predict that this will develop into a real boom. Most sectors of the economy look rather strong, including residential construction. Of course the major uncertainty lies in the area of consumer reactions to the tax cut, and the resulting impact on spending and prices. While the major price indices continue to show stability, there has been a new flurry of increases, notably in metal prices, in the last couple of weeks. With business expansion likely to accelerate in the coming months, and with the threat of excessively generous wage settlements facing us this summer, it behooves the System to remain very much on the alert for signs of new inflationary pressures. In this connection we can welcome the President's strong plea yesterday for wage and price restraint; but it remains to be seen how effective this will be.

The latest balance of payments figures are decidedly encouraging. Payments were virtually in balance in February and were actually in surplus in early March. A remarkably strong trade surplus seems to have been a major contributor to the improvement of recent months--and while part of this is attributable to temporary agricultural export gains reflecting European crop shortages, a larger part seems due to the rapid rise in living standards in many industrialized countries and our improved competitive position vis-a-vis Europe. I also have the impression that, although bank lending to foreigners remains relatively large, there has been a tendency, at least early in the year, for U. S. corporations to pull short-term investments back to this country in response to the better yields obtainable here than some months before. It is interesting to note that the approximate over-all payments balance in February was achieved in spite of a sudden but not wholly unexpected revival of long-term foreign issues in our markets in that month to a level about equal to the 1962 monthly average.

Despite the improvement in balance of payments statistics, I think that caution and avoidance of overoptimism are very much in order. If business expands as now seems likely, imports should receive a strong stimulus. Also, the volume of foreign security flotations is likely to be substantial, whether or not the interest equalization tax is enacted; and we cannot overlook the possibility that tighter credit and higher interest rates abroad may eventually revive undesirable developments in the area of short-term capital flows.

There have been unusually large divergencies in the movements of such financial statistics as those on total bank credit and money supply that have become available since our last meeting. Careful analysis suggests to me, however, that these divergencies can be explained in good part by questionable seasonal adjustments, by erratic movements in Government deposits, and by the fact that some series deal with daily averages and others with month-end data. Allowing for such factors, I believe that so far the underlying trends of bank credit, loan demand, and money supply have shown no marked change since 1963.

There appears to be some uncertainty as to the amount of the Treasury's prospective cash borrowing early in April, and even as to whether it will occur at all. If it is felt that the amount needed can be satisfied in the bill market, the "even keel" implications of the financing would be quite limited. In any case, however, neither domestic nor international considerations point to the need at this time for any change in monetary policy. Basically it seems to me that we should continue to accommodate moderate growth in bank reserves and bank credit, while maintaining the present degree of firmness in the money market. Looking a little further ahead, if expanding business demands for credit together with the prospect of heavier Treasury borrowing after midyear should bring pressures for accelerated credit growth, we should permit this to be reflected in some upward movement in interest rates.

In maintaining the status quo over the coming three weeks we might reasonably aim at free reserves in the $0-$150 million range, which should mean borrowing of $350 to $400 million; Federal funds consistently at 3-1/2 per cent; and a three-month bill rate moving within or close to the 3.50-3.60 range. Incidentally, I have read with interest the Manager's memorandum commenting on the second paragraph in the directive and the absence of serious difficulties arising from conflicts within the directive. While I am sure we would all like to find some currently available indicator that would enable us to adjust operations more closely to long-run objectives in terms of aggregate reserves or total bank credit, I am convinced that until better data are available we would do well to couch the directive in roughly such terms as are now in use. If the Committee agrees on the desirability of maintaining policy unchanged for the next three weeks, renewal of the present directive would seem appropriate, with some modification of the first paragraph in recognition of the further improvement in the balance of payments.

Mr. Ellis reported that factory employment in New England was not expanding, but that manufacturers' new orders were rising. Reports in the regional survey of manufacturers' investment plans were continuing to be received, and the latest tabulations not only confirmed the earlier indications of a rise in capital expenditures but showed a larger rise than the earlier tabulations had. The present estimate was that New England manufacturers were reporting a year-to-year increase in capital outlays of 37 per cent. Because this figure was so high a check had been made on the accuracy of the survey in previous years. Respondents in the survey generally account for more than 30 per cent of the region's manufacturing employment, and over the past seven years the estimate based on the survey had proved to be accurate within a 10 per cent margin. At least in New England, the tax cut evidently was having a stimulating effect on capital outlays.

Nationally, Mr. Ellis said, the expansion was continuing, and the role of credit in this expansion was revealed in such figures as the 7 or 8 per cent rate of growth in bank loans and investments, the 4 per cent growth rate in the money supply, and the 15 per cent rate of increase in time deposits. As the staff memorandum reported in discussing the balance of payments, the latest data available indicated that the outflow of commercial bank credit had remained heavy. Also, for the first two weeks of March at New York City banks the increase in total loans and investments was unusually large, exceeding the increases in three of the past four years by $650 million or more. To his mind, the fundamental question the Committee faced was how rapidly and for how long it could continue to support the current rate of credit expansion. His own view was that the present rate was unsustainable for the longer run, and that the Committee should seek to curtail it. The closeness of the Treasury financing prospectively, and the closeness of the tax cut retrospectively, suggested no change in policy at this meeting. However, he would favor resolving uncertainties on the side of less ease.

Mr. Ellis felt that the Committee should clarify its instructions on this point. It was the Manager's understanding that net borrowed reserves should be avoided unless the Committee shifted its policy toward less ease. He thought the Committee should revise its instructions by expressing a willingness to accept an occasional negative free reserve figure and by indicating that a figure in the range from minus $50 million to plus $200 million was consistent with its objectives.

The discussion at the last meeting, Mr. Ellis continued, indicated that the Committee was concerned about the narrow range of fluctuation in the bill rate. He had found Mr. Stone's explanation of the lack of fluctuation to be persuasive. At the same time, the Committee certainly had succeeded in conveying to the market its disinclination to let short rates fall below 3.50 per cent, or to let them rise enough to threaten the Regulation Q ceilings. He questioned whether the Committee logically could continue to be concerned about the lack of fluctuations in short rates, in view of the fact that its own defensive actions defeated the objective of wider fluctuation. While he urged the Committee to accept a larger range of fluctuation in free reserves, it was n t his intention to argue for fewer defensive operations. Rather, his objective was to overcome, on a gradual basis, the block posed by market expectations associated with crossing the zero free reserve level. Unless this barrier was overcome, the Committee could not have a continuous policy, but always would be faced with discontinuous changes.

With respect to the directive, Mr. Ellis continued, a sentence in the policy record entry for the meeting held on December 19, 1961, read: "In the view of the majority, separation of the continuing authorizations from the current directive would permit the Committee to frame its current economic policy instructions to the Federal Reserve Bank of New York in a more effective fashion." During 1962 the Committee had changed the first paragraph of the directive nine times. In 1963 it had revised this paragraph six times, often very slightly. What interested him was that the first paragraph of the directive had been left unchanged from July 1963 until the last meeting, except for a rearrangement of words in October. Obviously, there was no merit in changing the directive merely for the sake of change, but it was doubtful that the Committee was expressing its objectives carefully enough if a single paragraph could fairly express policy objectives covering the eight-month span from August 1963 to March 1964.

In a concluding remark, Mr. Ellis noted that the staff had circulated alternative proposals for wording the directive near the end of the last meeting. Except for one Reserve Bank President, none of the participants in the ensuing discussion had seen the proposals before they were distributed. He would urge that proposals for alternative directive wordings be distributed to the full Committee at the start of the meeting, so that everyone might have an opportunity to study them and to comment on them in the course of the go-around.

Mr. Irons reported that conditions in the Eleventh District were favorable. Changes had been relatively slight recently, and for the most part involved an edging up. The production index for the District had risen fractionally, in about the same manner as the national index had. Crude oil production and refining were up a bit, although prices were on the weak side at the moment. Construction contract awards continued to advance, with the increase attributable to residential building; nonresidential construction was slightly lower. Nonagricultural employment was moving about seasonally, and department store sales had reached record highs. The demand for new automobiles was strong. Agricultural conditions generally were good; there had been quite a bit of rain scattered around the District. On the whole, business conditions were showing a moderate, slight expansion and there were no signs of surges in the picture.

In the financial area, Mr. Irons said, bank loans and investments and deposits had moved upward during the past three weeks, with the increases slightly less than for the comparable period a year ago. The loan increase was general except for consumer loans, which were off a little. Increases in investments were about the same as a year earlier, but holdings of Governments were down and those of other types of investments were up. District banks still were net buyers of Federal funds, but their purchases were running somewhat below earlier levels. Borrowings at the Reserve Bank had risen, but not significantly.

Mr. Irons commented that during the past week or two he had noticed less in the way of extremes in the attitudes of businessmen. It seemed that the thinking of most was following a standard pattern; conditions were considered good and further advances were anticipated. Few expected the economy to go through the roof, and few expected a lack of stable advance. There was surprisingly little comment on the effects of the tax cut; this seemed to rank much lower in the scale of things discussed than the international situation. It was taken for granted that the domestic economy was going to move ahead at a reasonable, moderate pace. Perhaps this was complacency. In any case, people thought that there was not much to worry about. With respect to the directive, Mr. Irons said he did not advocate a change.

Mr. Swan reported that the limited information available for February and early March suggested a continuation of the modest but broadly-based advance in the Twelfth District. Preliminary figures indicated an increase in February in total employment in California, with declines in manufacturing more than offset by gains in other sectors. The reduction in manufacturing employment resulted from a further decline in defense- and space-related industries, particularly in electrical manufacturing. In fact, the February decline in defense-related employment was the largest for any single month since April 1963. There also was a further drop in aircraft employment in the State of Washington.

Mr. Swan noted that construction activity in the District continued at the high level of the second half of 1963. Demand for nonferrous metals remained strong, while that for structural steel was fairly active because of the mild winter weather in the District. Loans at weekly reporting banks declined slightly in the three weeks ending March 11, in contrast with increases for the rest of the nation. But for 1964 to date the situation was reversed; loans rose in the District and declined in the rest of the nation.

With respect to policy, Mr. Swan said he would not advocate any tightening now even apart from the possibility of a Treasury financing, which called for an even keel. There seemed to be no indications of a rise in the rate of expansion in business activity. Certainly tightening was not called for by the recent developments in the balance of payments. The increases in bank reserves and in the money supply thus far in 1964 had been modest. Of course, money and reserves had increased rapidly in the latter part of 1963, but the rises had occurred without significant pressures on prices or reductions in unutilized resources. He agreed that some tightening might be required before disappearance of the slack was clearly evident in the statistics, but he did not see the need for tightening at this point.

Mr. Swan said he would favor a continued moderate increase in the supply of bank reserves. Also he would like to see the free reserve figure at or above $100 million, if possible, not only because of possible market reactions to lower figures but also because he believed that the money market would have been considerably firmer recently had it not been for the slight shift of attitude with respect to intermediate and longer term securities. He would resolve doubts on the side of ease.

As far as the directive was concerned, Mr. Swan said, he agreed with Mr. Hayes that the first paragraph should be changed to reflect the further improvement in the balance of payments. Some reference to possible Treasury financing also would be desirable, even though specific financing plans had not yet been formulated.

Mr. Deming reported that the Minneapolis Bank's mid-March business opinion survey indicated some swing toward optimism, particularly as compared with the January and February surveys. Survey respondents had been asked if they felt the tax cut would stimulate business activity in their local areas. In the commercial areas, where salaries and wages were significant, the tax cut was seen as definitely stimulative. In the rural areas people thought tax cut stimulation of business activity would be slower to be realized.

With the exception of farm incomes, Ninth District current business indicators in recent weeks had moved moderately upward, Mr. Deming said. Retail sales were especially good in February and early March. February and March employment increases over year-earlier figures were gratifying. Bank debits were up sharply, and the industrial use of electric power advanced substantially from January to February. Personal incomes in the District also increased again in February despite declining farm incomes.

District bank deposits increased a little more than average during the first half of March. Loan demand seemed to be picking up after some relative weakness earlier in the year although demand for commercial and industrial loans continued relatively light.

Mr. Deming said that for the reasons already cited, he would favor no change in policy and no change in the discount rate. He would echo the comment that changes in the first paragraph of the directive were desirable to reflect the Treasury financing and to take account of the change in the balance of payments situation. It appeared from what Mr. Furth had said that the present language with respect to an adverse payments balance might no longer be accurate. He would favor continuing the phrase "maintaining about the same conditions in the money market as have prevailed in recent weeks," but he had a little difficulty in defining the phrase. He thought it would be a mistake to let free reserves become negative, and would prefer to see them somewhat higher than they had been in the past three weeks--perhaps around $100 million. But he was not sure this could be accomplished while maintaining the conditions in the money market that had prevailed in recent weeks. He would hope that both objectives could be achieved.

Mr. Scanlon reported that economic expansion continued in the Seventh District. In manufacturing stronger demand was most evident in steel, motor vehicles, and machinery and equipment. A recent meeting of business economists held at the Reserve Bank revealed widespread optimism. Auto and truck sales were excellent in February. Demand for machinery had been very good in early 1964, with orders for construction equipment showing exceptional strength. Shipments of farm machinery also had increased despite reduced farm income in some sectors. Airline traffic in the first two months of 1964 was 20 per cent above last year, and well above projections. Telephones added in Illinois in January and February numbered 30 per cent more than last year, while total toll calls were 9 per cent higher. A large retailer reported sales running well above budgeted levels. Nevertheless, inventories were in good balance and prices had changed little as suppliers were able to ship goods promptly. Many of the firms represented at the meeting had raised their capital expenditure plans for 1964 and 1965.

Mr. Scanlon said that bank debits at District banks had been at a high plateau in recent months, with the totals for January and February almost 14 per cent above last year. Savings deposits increased only half as much in the first two months as in the same period last year. When savings were combined with individuals' holdings of time certificates, however, the percentage increase about matched last year. The percentage rise in savings and loan association share accounts in February was slightly below the same month of last year, reflecting an improvement over January, when the net inflow was only a fraction of the rise a year earlier. Thus, savings in these forms were still rising rapidly.

Steel output, now at an annual rate of about 120 million tons, was expected to rise further in March, April, and May, Mr. Scanlon said. In the latter part of this period auto demand was expected to decline in preparation for early model changeovers in July. Some steel users were believed to be building inventories, and delivery schedules had been stretching out in recent weeks--particularly in the case of cold-rolled and galvanized sheet, wide plates, and wide-flange beams.

Mr. Scanlon reported that during the first three weeks of the sign-up under the Feed Grain Program (February 10-27) farmers agreed to divert 78 per cent more acreage than in the same period of last year. Decisions had been influenced by dry weather, low livestock prices, and changes in the program. Apparently farmers would plant somewhat less acreage in corn than last year. On the other hand, soybean acreage was expected to be expanded.

Commercial and industrial loans at Chicago banks increased sharply last week, Mr. Scanlon noted, but for the six weeks ending mid-March the increase was the smallest of any recent year. While business loans at Chicago banks rose somewhat more over the tax date than a year ago, the amount of maturing tax bills was smaller.

In preparation for the April 1 tax assessment date, Chicago banks had acquired more than $250 million of Treasury bills in the past two weeks--mostly with April 2 maturities. Total bill inventories were now a little less than last year's March peak but above most other recent years. The two largest banks would need about $600 million, all of which has been arranged. Some of the recently acquired bills were out on RP's. About $200 million of these were April 2 bills and a substantial portion of the remainder was represented by other April maturities so there should be no difficulty in unwinding the transactions. The net decline in negotiable certificates of deposit over the mid-March tax date had amounted to about $60 million and another $50 million would mature at the end of the month.

Mr. Scanlon said he would favor continuation of the current policy. He would make no change in the directive other than to reflect the improvement in the balance of payments. He did not favor changing the discount rate.

Mr. Clay said that cash receipts from farm marketings in the Tenth District were continuing the decline that began in 1963. This reflected a lower level of receipts from the sale of both grains and meat animals.

The current condition of the 1964 wheat crop was generally good, but deficient moisture made the crop more dependent than usual upon weather developments from now until harvest time. Wheat prices were almost certain to be significantly lower than last year. If the pending legislative wheat and cotton programs were enacted, however, Government payments in the District would be substantially higher this year than last.

Beef production continued to expand, and the volume of marketings was likely to be higher than last year's record level. Cattle prices so far this year had averaged substantially lower than for the comparable period a year ago. Although prices were expected to show temporary improvement, depressed prices were probable this fall unless pasture and feed conditions became unusually favorable.

Pasture conditions were relatively poor in the District at the present time, Mr. Clay noted. Precipitation had been normal or better since the first of the year. However, it had not been sufficient to replenish subsoil moisture supplies, fill ponds, and bring stream flow back to normal in most areas because of the extreme drought conditions that prevailed last fall and early winter.

Mr. Clay thought that developments in the national economy appeared to call for a monetary policy in line with the Committee's objective of the last several months. Over all, he said, the economic situation continued to be one of moderate expansion with ample and growing room for further expansion. Accordingly, reserves should be provided for continued commercial bank credit growth in the weeks ahead. It was too early to observe the effects of the Federal income tax cut on economic activity, but evidence of the hoped-for stimulus from that source should not in itself be a guide to lessened credit availability in any case. The Committee also would need to be mindful of the additional Treasury financing activity which presumbaly would be announced shortly.

In a substantive sense, the current economic policy directive could serve satisfactorily for the period immediately ahead. However, in view of the length of time and the range of developments since the current directive was adopted in essentially its present form, a new wording of the directive would be in order. Alternative "B" of the directive drafts submitted by the Committee staff at the last meeting would appear to be a suitable choice, Mr. Clay thought. In his opinion, the Federal Reserve Bank discount rate should remain unchanged.

Mr. Wayne said that the Richmond Bank's latest information confirmed a continuing upward trend in Fifth District business and a further rise in business optimism. Their latest survey indicated broadly based gains in manufacturers' orders, backlogs, shipments, employment, and hours. Recent business statistics were predominantly favorable, with construction showing particular strength. Contract awards reached an all-time high for January and building permits set records for both January and February. Textile production continued at a good pace, although markets remained rather quiet, apparently anticipating the end of two-price cotton. Textile inventories had remained in balance largely because of substantial shipments of goods sold months ago. Federal cigarette tax collections decreased again in February and were about 20 per cent below a year ago.

In March, however, some cigarette plants returned to a five-day week. The farm outlook remained uncertain and constituted the weakest single factor in the District's near-term prospects. According to preliminary figures, net farm income in the District fell 10 per cent last year as compared with a 3 per cent decline nationally.

There was some evidence in the District, particularly among manufacturers, that expectations of rising prices might be accompanying improved business sentiment, Mr. Wayne reported. About one-fourth of all manufacturers participating in a recent survey conducted by the Richmond Bank's Research Department indicated that they were now paying slightly more for raw materials, and nearly one-half reported small increases in machinery and equipment prices. More than one-third expected further price rises affecting materials, equipment, and labor.

Mr. Wayne commented that the national economy, as a recent editorial described it, seemed to be "cruising smoothly at a lofty altitude." There was, in fact, rather marked evidence that the expansion which had persisted for more than three years was taking on new vigor. The consumer sector remained strong, especially in automobiles, and recent surveys reflected continuing consumer optimism. It was true that the ratio of consumer debt to disposable income had been high in recent months but the tax reduction automatically made this ratio more favorable. Also, the ratio of inventories to sales remained quite low. Outlays for new plant and equipment were substantially above year-ago levels and all indications pointed to a continued rise for a number of months to come.

New orders for machine tools had shown outstanding strength in recent months. New construction spending had been at or near record levels for five months and housing starts pointed to a continued high level of activity in residential construction for the near future. On the whole, it appeared at this stage that currently available unused capacity plus prospective additions should provide the means to meet the growing demand for goods. Prospects to date seemed to add up to a solid and substantial expansion without any obvious weaknesses or excesses.

In reviewing domestic and international developments over recent weeks, Mr. Wayne said he still found nothing that would justify a change in the posture of policy at this time. The recent flurry of price activity occasioned him some concern, but he believed it would be premature to interpret this as part of a general movement. In general, existing money and credit conditions appeared to be accommodating the latest business thrust with no significant pressure on interest rates or prices. Recent increases in rate structures abroad were clearly a source of concern. Nevertheless, there was no evidence that they required any policy response at this time. As a matter of fact, current reports indicated that our external position, at least for the present, had improved significantly. In addition, the Treasury's operations in the market over the next few weeks suggested no action unless absolutely necessary. Both the international and the domestic situation could, of course, change quickly and the Committee had to remain sensitive to any evidence of change. For the reasons indicated, Mr. Wayne preferred to extend for a while the period of "watchful waiting" the Committee had entered some weeks ago. Accordingly, he favored renewing the current directive, with such changes of wording as might be appropriate, and no change in the discount rate. He did not share Mr. Ellis' concern about the lack of change in the first paragraph of the directive since last summer. It reflected the fact that the Committee's policy had remained unchanged over that period.

Mr. Mills said that earlier in the meeting the difficulties had been discussed of accurately projecting movements in the supply of reserves and also the difficulties that arose out of the interpretations placed by the market on the published statistical record on the supply of reserves. In his opinion those problems went back to the Committee's error in conducting monetary and credit policy on the basis of interest rate considerations rather than concentrating its efforts and its actions on insuring the economy with an adequate and appropriate credit availability. His further comments would bear on these matters and, as it has happened, would refute the reasoning expressed in the statements made by Messrs. Hayes and Ellis. Mr. Mills then made the following statement:

> In the period since the Committee's last meeting, market forces have broken through the confines of what has been a rigidly and artificially imposed interest rate structure. Interest rates on longer-term U. S. Government securities have moved up and away from the basic short-term rate fixed by the Committee's policy directive of "no change" and, in doing so, have demonstrated the long-run futility of any authoritarian attempt to control natural market forces. Unforeseen aberrations in the movements of reserves may very well have given market

observers an impression of a stronger move toward credit restraint than that officially intended but, even so, the weight of evidence indicated no lessening of pressure on the credit markets, and yields on longer-term U. S. Government securities rose in response.

These developments have been particularly unfortunate, both because higher interest rates are unwarranted and because they have come at a time when the unpredictable possibility of inflationary pressures is being actively discussed, and lead to a conclusion that the Federal Reserve System is already moving to counteract price and credit excesses foreseen through its economic intelligence facilities. Such interpretations of System policy intentions should be promptly corrected by increasing the supply of reserves to a level that will visually dispel this belief at the same time that reasonable encouragement is given to credit expansion. In any event, it should be obvious that any overt policy actions now taken in the direction of credit restraint will risk precipitating some of the very difficulties sought to be avoided, by way of arousing needless immediate concern about inflationary problems that are still uncertain of eventuating and in so doing fostering harmful counteroffensive measures in the financial and business communities.

Mr. Mills added that he was distressed by the amount of time taken at each meeting in reaching agreement about the wording of the directive, and he could only revert to the plea he had repeatedly made that the Committee go back to the kind of directive previously in effect, which included continuing instructions and contained only a single clause expressing the Committee's policy intent.

Mr. Robertson commented as follows:

With a Treasury cash financing announcement due momentarily, it seems clear that until our next meeting a policy of "even keel" is called for, guarding against any manifestations that might suggest even an ever-so-slight tightening of policy, such as occurred--for whatever reasons--during the past three weeks. I think this would be appropriate even in the absence of Treasury operations, for the economic consequences of the tax cut are still very uncertain, and I would not want any shift in monetary conditions to prejudice the economy's response in any way. As a matter of fact, I believe we ought to be holding policy unchanged, through the next meeting and beyond, until such time as we will have reaped the full potential noninflationary stimulus of the tax cut. In my judgment, a tightening of policy will be warranted only if, as, and when we should develop a wave of speculative ebullience and general price increases that is plain for everyone to see. At that time, vigorous action ought to be called for; until such time, tightening of policy in fear of possible price increases would be premature and unwise.

I do hope that following an "even keel" policy for the next few weeks will not cancel the salutary effects of the somewhat wider money market fluctuation that we happened to experience during March. I welcome the signs of somewhat more elastic dealer expectations with respect to short-term rate movements (even if it had to come from a temporary upward rate bounce in response to the British Bank rate action), and I hope we can keep the dealers from slipping back into the old assumption that only a very narrow band of bill rate fluctuation is "acceptable" to Federal Reserve and Treasury officials. I would also hope that we would not look with disfavor on even lower bill rates in the existing atmosphere.

In a concluding remark, Mr. Robertson said that if a change in the directive was to be made, he thought the language suggested in Alternative "B" proposed by the staff at the last meeting was appropriate, not only to reflect the change in the balance of payments situation but from other points of view as well.

Mr. Shepardson said it seemed to him that there were continuing and expanding waves of optimism as to the business future. This could lead to the possibility of further inflationary pressures. It was difficult to justify changing policy on the basis of anticipations. At the same time, it was hazardous to wait until everybody could see the signs of change, because developments then would be so far under way that drastic action would be required. This posed a dilemma. However, in the light of the continuing uncertainty regarding price pressures, and in light of the Treasury financing program, he thought it probably was wise to continue existing policy at this time. It would be appropriate to make minor changes in the directive on the technical points that had been mentioned, but otherwise he would advocate no change.

Mr. Mitchell said he was concerned about the problem that Mr. Mills had noted--of the impressions the public was receiving of Committee policy. The Committee knew from the directives on which it had agreed that it had not changed policy. But outsiders had the impression that the Committee was shifting to a tighter policy because interest rates were rising, free reserves were lower, and the money supply had ceased growing since the first of the year. From these and other figures the market was concluding that the System was leaning towards tightness, and that its next move would be in the direction of further tightness.

Some members of the Committee seemed to have a rather rosy view of the present business situation, Mr. Mitchell continued. He would like to call attention to the fact that the index of industrial production had been oscillating in a narrow range for about eight months, and that present estimates indicated that GNP would rise only \$7 or \$8 billion in the current quarter, as compared with an increase of \$11 billion in the fourth quarter of 1963. As Mr. Irons had said, the rate of expansion was moderate or slight. There also had been a substantial improvement in the balance of payments.

Given these external indications, Mr. Mitchell thought the Committee had gotten itself into a vulnerable position with respect to its policy. He was not sure what could be done about this; perhaps Mr. Holland's analysis provided the clue. The Desk could (1) aim for free reserves of not less than $100 million, and somewhere in the range between $100 and $200 million; (2) not act to prevent the bill rate from dropping below 3.50 per cent; and (3) permit the Federal funds rate to be lower than the discount rate more frequently than it had been. Such actions would give the market signals that the System had not moved to a firmer policy.

Mr. Daane said that in his judgment the status quo in policy seemed to be clearly called for, not only because of the Treasury financing but also on the basis of both domestic and international considerations. He did not think the Committee should leap to conclusions about the balance of payments improvement until it had further confirmation of the recent trend. While he sympathized with Mr. Mitchell's preference for somewhat higher free reserve figures, he would not like to see any great relaxation at the moment.

The Treasury was on the eve of a cash financing, Mr. Daane noted. The size was as yet undetermined, but it was not likely to exceed $1 billion or $1-1/2 billion. As the Manager had indicated, the financing probably would involve a short maturity. Also, a one-year bill auction would be announced shortly. With announcements of these offerings to be made between now and the next meeting, and with payment dates also likely to occur within that period, he thought that the Committee could not dismiss the implications of Treasury financings in deciding on policy.

As one of the Board majority favoring operations outside the bill area, Mr. Daane continued, he thought there was a real opportunity for the Desk to take account of the availability of coupon issues and, within the marginal concept the Manager had outlined, to supply reserves in the period ahead by coupon purchases in some volume--not just token amounts. As the Chairman had noted at the last meeting, there was a continuing need to mesh System and Treasury operations. As he saw it, a tough job lay ahead for the Treasury. He thought that whenever it was clearly consistent with the Committee's policy objectives and its needs for supplying reserves, the Committee should endeavor to operate in the manner most useful to all parties concerned.

Mr. Daane agreed with those who favored some change in the wording of the directive to refer to the Treasury cash financing and also to the balance of payments improvement, although he would be cautious about using wording that implied that the payments problem had been solved.

Mr. Hickman observed that business generally continued to expand. The most significant piece of business news since the last meeting was the report of the Commerce-SEC survey of capital spending plans, which indicated a larger gain for this year than earlier reports had indicated. Both industrial production and retail sales showed further gains in

February. Nonfarm employment gained contraseasonally and the rate of unemployment dipped slightly. The February rise in retail sales on top of the revision that placed January above December brought the third successive monthly record. Indications were that strength in sales was being maintained in March.

Steel output remained at a high level; incoming orders for steel had continued to expand in March, with a considerable share accounted for by the usual seasonal upswing. The outlook for steel production for the first half had now been revised upward to about 60 million ingot tons, which would be a new record for the period. The current high rate of steel production had begun to raise questions as to its sustainability.

For autos, February was a month of further increases in seasonally adjusted sales and output. Sales during the first 20 days of March had been maintained at high levels. Output was expected to increase less than seasonally in March because of inventory adjustments in some of the slower moving lines. However, in the aggregate, dealers were currently holding one day less of inventories in relation to sales than they did a year ago.

As for prices, Mr. Hickman said, recent increases for certain industrial commodities had had little effect on the over-all indexes. Since the last meeting, price increases had been announced for aluminum and its products, for copper, and for glass and glass containers. The Federal Reserve Board's special grouping of sensitive materials prices continued to move up slightly in February. Moreover, several large groups of industries in the wholesale price index showed fractional rises for February, including chemicals, lumber and wood, pulp and paper, metals and metals products, machinery and automotive products, and nonmetallic mineral products. Those increases were offset by declines in other lines that occurred for special reasons. For example, a substantial decrease in fuel prices in February had been ascribed to the mild winter, while a decrease for bottled beverages was associated with a reduction in sugar prices. On balance, the more systematic tendencies within the wholesale price index appeared to be on the up side, while fortuitous elements were prominent on the down side.

Recent economic developments in the Fourth District had continued to be favorable, although less exuberant than earlier. Parts of the District, of course, had been hard hit by the Ohio River flood, and there was evidence of some temporary slowing down as a consequence. However, the floodwalls around the major cities in the river valley prevented any major damage to the District's economic structure. At the peak of the flood, 6,000 families were displaced in the five-county area around Cincinnati. There was heavy damage to roads, and high costs were incurred in the subsequent cleanup as the waters receded. The flood probably would trigger heavy Federal and State outlays in a variety of flood control projects along the Ohio River.

Insofar as the next three weeks were concerned, Mr. Hickman saw no reason for any change in current System policy. For one thing, the Treasury might soon be in the market to raise new cash. The lower level of free reserves that prevailed in the past two weeks apparently did not cause any serious tightening in the market, since borrowings remained at about the same average level as in February. Over recent weeks the U. S. international position had appeared to be relatively satisfactory, despite the increase in the British Bank rate and the shift of funds from Italy to Germany, and the policy directive should probably be revised to reflect this. Some consideration should probably also be given to a revision of the directive to reflect an even keel position in view of the possibility of Treasury financing in the near future.

The recent rise in bond yields and the return of the Desk to the bond market after an absence of nearly four months appeared to have been coincidental, on the basis of Mr. Stone's remarks. In any event, the timing seemed to Mr. Hickman to have been unfortunate.

Mr. Bopp reported that business in the Third District continued at fairly satisfactory levels, but the nation, as usual, seemed to be doing better than the District. Labor force indications were about as healthy as they ever got in the District; construction awards equaled 1963 totals for the same date; and department store sales were picking up fairly well as Easter approached. Since the Committee's last meeting, moderate pressure on bank reserve positions had continued and some evidence of a pickup in business loans had appeared.

As he saw the economy, Mr. Bopp said, there was nothing new which might suggest a change from the present position of watchful waiting. Business still looked good, the balance of payments continued to improve, and prices, on the average, were steady. With the tax cut now in effect, it was certainly best to keep an open mind about the future. But he continued to feel that any departure from the present degree of ease should not be made until there was evidence of inflationary excesses. He would revise the directive to reflect the balance of payments improvement and the Treasury financing.

Mr. Bryan said that he had nothing of significance to report for the Sixth District; activity seemed to be expanding moderately, as in the nation. At District banks loans, and the total of loans and investments, were still expanding. The most important development that he had detected was a marked improvement in business optimism, but he was not certain how significant this was. He thought there should be no change in policy at present. It was always difficult to say what "no change" meant, but he would like to see a free reserve figure of $100 million or more.

Mr. Bryan said that a better term for the tax cut might be "tax reallocation." It seemed to him that many localities were waiting to take advantage of the tax cut of the Federal Government, and most States could be expected to increase their taxes by at least part of the amount of the Federal reduction. Thus, the outcome of the Federal tax cut was apt to be a smaller reduction in total taxes, and possibly even an increase.

Mr. Shuford said that economic activity in the Eighth District had continued to expand moderately in recent months. Employment in major labor markets had increased since last fall and there had been significant gains in the area of durable goods manufacturing. Spending had risen sharply since November as measured by department store sales, but as measured by bank debits the increase was much less pronounced. Business loans, which had declined from late last year through January, had shown a moderate increase since. Industrial use of electric power had changed little since last summer.

The national economy continued to move along a strong upward trend, with production, employment, and sales statistics suggesting a continued healthy expansion. In view of the tax reduction and of prospects for consumer expenditures and capital investment the Committee needed to continue to watch price developments closely. So far, there seemed to be little real cause for concern. Movements in consumer prices had been moderate, and wholesale prices remained stable on the average.

Mr. Shuford said the improved international situation was encouraging. The balance of payments deficit had declined in the second half of 1963 and appeared to have fallen further so far this year, and the level of interest rates seemed to be reasonably aligned with rates abroad. While there was nothing at present in the balance of payments problem that constituted a constraint on domestic monetary policy, the Committee needed to continue to be alert to the problem.

In sum, Mr. Shuford said, both the domestic economy and the balance of payments continued to show progress within a monetary policy environment that had continued unchanged since the middle of last year. In view of this, he would favor making no basic change in policy. Recently there had been some increases in yields on both long and intermediate-term Governments, while the yield on Treasury bills had remained virtually unchanged. This firming was especially significant, Mr. Shuford thought, because rates were usually weak at this time of year, and the money supply recently had been more restricted than it was last fall.

It was Mr. Shuford's view that the Committee should avoid letting the pendulum swing further in the direction of restraint at this time. He thought that on the whole the Committee's over-all monetary policy for the last few months had been about right. It would be desirable for interest rates to continue at about their present levels in the near future, especially in view of the Treasury financing. He favored no change in the discount rate, and he favored changes in the directive only to reflect the balance of payments improvement and the Treasury financing. He thought that the Committee should continue to study the directive, as had been suggested at the last meeting.

Mr. Balderston said that in view of the impending Treasury financing, he favored continuing present policy.

Chairman Martin commented that he was well satisfied with the way things were going at the moment and he saw no need for making a change in policy.

Noting that the Secretariat had been asked at the previous meeting to prepare a memorandum discussing problems of the directive, the Chairman said he gathered that more time was needed. He asked Mr. Young to report on the status of the study and also to present staff suggestions for changes in the wording of the directive at this meeting.

Mr. Young said that a draft had been prepared of the memorandum on the directive that the Committee had requested, but further work was required to put it in a form appropriate for circulation. It was expected that the memorandum would be distributed to the Committee before the next meeting, and perhaps in about 10 days.

With respect to the directive to be issued at this meeting, Mr. Young said that the staff thought no changes were required in the second paragraph. In the first paragraph, the staff proposed inserting the word "moderately" before "adverse" in the description of the balance of payments position, to reflect the recent improvement. It also proposed expanding the first sentence, which read, "It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit" by the addition of "money supply and the reserve base" at the end; and deleting the final sentence, which read "In addition, it (this policy) recognizes the increases in bank credit, money supply, and the reserve base of recent months." This pair of changes seemed desirable because of the recent irregular movements in the aggregate series referred to. Finally, a slight revision in the next to last sentence was proposed to take account of the recent increase in the Japanese discount rate. This involved replacing the phrase "in important European countries" with the phrase "in important countries abroad" in referring to increases in foreign money rates.

Mr. Young noted that several members had suggested including a reference to the Treasury financing. When such references had been made in the past, he said, they usually related to financings of a larger size than the one now in prospect, and he wondered whether any reference was in fact required to the imminent financing.

In the ensuing discussion of the staff proposals, it was agreed that a reference to the Treasury financing should be included in the first paragraph, and that the statement relating to the balance of payments position should be formulated to allow for the possibility that final data might show that the balance was no longer adverse.

Mr. Hayes questioned the desirability of eliminating the last sentence of the first paragraph on the ground that this sentence remained accurate as a description of longer run trends. Mr. Swan said he would strongly support eliminating the sentence because of changes in the tendencies of the data referred to since the first of the year. Mr. Hickman expressed a preference for focusing on longer run trends rather than month-to-month changes, and noted that he had some reservations about the reference to the money supply, in view of the problems of defining that term.

Chairman Martin commented that the directive applied to a three-week period, and he did not think it could take account of all the cross-currents in developments over the past year. He felt that any directive could be read in various ways, depending on the emphasis that was placed on individual words. He was inclined to be sympathetic with Mr. Mills' point that the Committee spent too much time in meetings debating the specific language of its directive.

After further discussion, and upon motion duly made and seconded, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions in the System Account in accordance with the following current economic policy directive:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, money supply, and the reserve base, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U. S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources, and that it is likely to receive additional stimulus from the recently enacted reduction in Federal income tax rates. This policy also takes into account the facts that the balance of payments position, while improved, may still be adverse, and that the effects of increases in money rates in important countries abroad are as yet uncertain. In addition, it recognizes the imminence of new cash borrowing by the Treasury.

To implement this policy, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Vote against this action: Mr. Mills.

Mr. Mills said he felt the first paragraph of the directive had little significance, and the heart of the directive lay in the second paragraph. The second paragraph directed the Manager of the Account to maintain about the same conditions in the money market as had prevailed in recent weeks, and in his judgment money market conditions in recent weeks had moved toward restriction rather than expansion. Accordingly, he dissented from the directive.

Chairman Martin said that he did not agree that market conditions had moved toward restriction, and Messrs. Daane, Hayes, and Hickman associated themselves with the Chairman's view.

Mr. Mitchell said that he thought Mr. Mills had a sound point, but he believed the Committee was struggling to develop a type of directive that would prevent this kind of thing from happening. He hoped that the Committee would have a chance to put an improved directive into effect at the next meeting. Therefore, he voted to approve the directive.

Chairman Martin reported that a draft had been prepared of a possible response to the request of the Subcommittee on Domestic Finance of the House Banking and Currency Committee for the Open Market Committee's minutes for the years 1960-1963, inclusive. He thought the Committee should dispose of this subject by the next meeting. The gist of the draft was that the Committee had concluded that possible market repercussions and other considerations made it unwise for it to release its minutes for 1961 and later years without an appropriate lag. It did not specify any particular lag as appropriate. As Mr. Hayes had suggested at the last meeting, and as the Treasury had indicated, a case could be made for never releasing the foreign currency discussions, but this was projecting into the future. The letter also noted that the Committee was exploring means of making its records through 1960 available to scholars and others, as had been agreed at the last meeting.

In response to a question, Chairman Martin said he thought the position taken in the draft was quite tenable under the law, which required that the Committee policy actions be reported to Congress but did not require that its minutes be given to Congress.

Chairman Martin then suggested that the members study the draft from the points of view both of the desirability of the position taken and of the language used, and send their comments to the Secretary as soon as possible. He would hope that a final decision would be taken at the next meeting of the Committee, and a response sent to the Subcommittee promptly thereafter.

Mr. Hayes said he would like to raise a question about publication of the Manager's Report to the Committee of Open Market Operations in 1963, with suitable deletions of confidential material. Last year, he noted, the report on 1962 operations had been published in the April Federal Reserve Bulletin and reprinted in the New York Bank's Monthly Review for May.

The report had met with quite a good response. The academic community, in particular, had found it to be an enlightening commentary on the conduct of System operations. The New York Bank alone had had recuests for over one thousand reprints of the article.

This year, as the Committee knew, the second portion of the 1963 report--the detailed chronological section--was being published as part of the Board's Annual Report. Mr. Hayes believed there would be an interested audience for the more analytical review given in the first section of the report, and suggested that publication be considered in a format similar to that adopted a year ago. In the case of the chronological section, this would mean some duplication of the material in the Board's Annual Report, but he believed it would be worthwhile, reaching a somewhat different audience and providing the detailed background that would enhance the interpretation of the more general review.

Chairman Martin suggested that the Committee members review the material in question and be prepared at the next meeting to express their views on Mr. Hayes' suggestion.

Mr. Mitchell commented that in reaching views on Mr. Hayes' proposal the members should read the first part of the Board's Annual Report also, and Chairman Martin concurred in this suggestion.

It was agreed that the next meeting of the Committee would be held on Tuesday, April 14, 1964.

Thereupon the meeting adjourned.

Ralph A. Young

Secretary