

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 Wednesday, June 17, 1964, at 9:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
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. Sherman, Assistant Secretary
Mr. Broida, Assistant Secretary
Mr. Hexter, Assistant General Counsel
Mr. Noyes, Economist
Messrs. Brill, Furth, Carvy, Holland, and Mann, 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
Mr. Williams, Adviser, Division of Research and Statistics, Board of Governors
Mr. Axilrod, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Miss Eaton, General Assistant, Office of the Secretary, Board of Governors

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Messrs. Eastburn, Black, Baughman, Tow,
and Green, Vice Presidents of the Federal
Reserve Banks of Philadelphia, Richmond,
Chicago, Kansas City, and Dallas, respectively
Messrs. Sternlight, Brandt, and Bowsher,
Assistant Vice Presidents of the Federal
Reserve Banks of New York, Atlanta, and St.
Louis, respectively
Messrs. Eisenmenger and Lynn, Directors of
Research at the Federal Reserve Banks of
Boston and San Francisco, respectively
Mr. Kareken, Economic Consultant, Federal Reserve
Bank of Minneapolis

Upon motion duly made and seconded, and
by unanimous vote, the minutes of the meeting
of the Federal Open Market Committee held on
May 26, 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
May 26 through June 10, 1964, and a supplementary report covering the
period June 11 through June 16, 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 again this week for the eighteenth
week in a row. The Stabilization Fund had on hand \$231 million with
prospective sales of roughly \$66 million between now and the end of
the month, suggesting a month end balance of \$165 million. This total
might be increased by \$15 million or so, representing the U. S. share

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of the Gold Pool intake during June. On the London gold market demand had been relatively light in recent weeks, but on the other hand the Russians had remained out of the market.

Mr. Coombs reported that the exchange markets continued to be characterized by cross-currents. On the one hand, there was gratifying evidence of a strengthening of confidence in the dollar in most exchange markets, partly reflecting the favorable trend in the country's balance of payments since last summer, the improved gold position of the United States, and the emergence of both inflationary and balance of payments problems in a number of European countries. On the other hand, the strenuous efforts of certain European central banks to counter such inflationary pressures by credit restraint continued to induce a repatriation of dollar investments by foreign commercial banks in an effort to escape the liquidity squeeze on their positions. Mr. Coombs thought it likely that these exchange market pressures on the dollar would be further intensified by seasonal factors, such as tourist spending, during the summer months.

Switzerland remained one of the major trouble spots, Mr. Coombs commented. The U. S. still owed \$130 million of Swiss francs under swap arrangements with the Swiss National Bank and the Bank for International Settlements. However, he thought that after repeated delays the \$100 million swap deal between the Bank of Italy and the Swiss National Bank, which would indirectly enable the System to pay off \$100 million of its

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Swiss franc debt, was now close to completion. He had talked with both the Swiss and the U. S. Treasury with respect to settlement of the remaining \$30 million and he was hopeful that this remaining debt would be settled on or before June 30 by a Swiss purchase of gold from the U. S. Treasury.

Meanwhile, however, the Swiss National Bank had continued to take in dollars as the Swiss commercial banks repatriated overseas investments in order to strengthen their liquidity positions, as well as to prepare for their end of June window dressing date. As of yesterday (June 16), Mr. Coombs said, the Swiss National Bank was carrying \$130 million over and above its traditional ceiling of \$175 million. He thought it would be inappropriate to draw upon the swap lines to mop up part or all of these surplus dollar balances, since the credit squeeze which produced them might continue for a good many months to come. In these circumstances, Mr. Coombs thought it would be far better to work out some sort of a combined approach in which the Swiss might undertake to lift somewhat the ceiling on their dollar holdings, and to take a few more medium-term Swiss franc bonds, while the U. S. Treasury might sell the Swiss another \$25 million or so of gold. If, on the other hand, as a result of the British election or other developments, there should be speculative inflows into Switzerland, Mr. Coombs thought that they might appropriately be dealt with by Federal Reserve or other central bank credit operations. If the bulk of such an

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inflow were to come from London, Mr. Coombs said, he would be hopeful that the Bank of England and the Swiss National Bank would themselves absorb a goodly part of the pressure through a bilateral credit such as that arranged during the sterling crisis of 1961.

The second trouble spot was the German mark situation, Mr. Coombs continued. During the late spring months, the mark had held relatively steady as the very sizable German trade surplus was more or less offset by capital outflows caused by announcement of a proposed withholding tax on nonresident income from German securities. During the past ten days or so, however, strong buying pressure on the mark had developed and since June 4th the Bundesbank had been forced to take in a total of \$265 million. This change seemed to be largely attributable to a tailing off of capital outflows plus some temporary tightening of the German market and window dressing for June 30. There also had been some evidence of speculation arising out of reports that high-ranking German financial officials were inclined to favor a widening of the margins on the mark. The Account had so far refrained, however, from drawing on the swap to deal with the situation, partly because the German trade surplus might well run on for a good many months to come and should, therefore, be dealt with by medium-term credit arrangements, such as additional issues of D-mark bonds. Such an additional issue was, in fact, already planned in the amount of \$200 million equivalent value July 1. Mr. Coombs thought that a resumption of forward operations in German marks for Treasury account also would

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be helpful, and the Account had so recommended to the Bundesbank. The Bundesbank had agreed to such a resumption of forward operations as soon as the forward premium reached 1 per cent, but was reluctant to operate below that level for fear of undercutting its special investment swap arrangements with the German commercial banks, which carried a rate of 1/2 per cent.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the System Open Market Account transactions in foreign currencies during the period May 26 through June 16, 1964, were approved, ratified, and confirmed.

Mr. Coombs noted that two swap drawings in Swiss francs would mature on June 30: one for \$30 million on the Bank for International Settlements, and one for \$20 million on the Swiss National Bank. As he had mentioned, he was hopeful that both drawings would be liquidated by June 30 but, in the event that further delays materialized, he requested the Committee's approval of renewal in each case for another three months. Both drawings initially had been made on December 31, 1963, and this would be the second renewal in each case.

Renewals of the drawings on the swap arrangements with the Bank for International Settlements and the Swiss National Bank, if they should prove necessary, were noted without objection.

Mr. Coombs then observed that the \$50 million standby swap arrangement with the Bank of Sweden would mature on July 17, and he recommended its renewal, with an extension of term from three to six

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months. He had reason to believe that the Bank of Sweden would be agreeable to such an extension.

More generally, Mr. Coombs said, as he had indicated in his memorandum on this subject to the Committee dated June 12, 1964, he thought it would be desirable to lengthen the terms of the standby swap arrangements whenever possible. (Note: A copy of the memorandum referred to has been placed in the files of the Committee.) He believed this would give the System's swap network a more solid appearance. If the Committee approved he would plan to negotiate extensions of the terms of other arrangements as they approached maturity.

In response to Mr. Wayne's question concerning the attitude of the French to such extensions of term, Mr. Coombs said the fact that several of the swap arrangements already had terms of six and twelve months would leave the French little basis on which to protest in this case. He would plan to approach the French concerning an extension of the term of the arrangement with them relatively late, after the terms of most or all other arrangements had been extended. He thought they probably would agree at that time.

Mr. Scanlon asked whether any other central banks might view a term extension unfavorably, and if so whether the Account would press the matter. Mr. Coombs replied that he thought a majority of central banks were clearly favorable, and that the others probably would go along when he negotiated with them at a later date. But in his judgment it would be a mistake to press the matter if there was any resistance.

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Mr. Mills commented that there was rising discussion of growing confidence in the dollar, and he asked whether the time was not approaching when requests for extension of the terms of swap arrangements should come as proposals from the other parties to the arrangements rather than from the System. The United States constantly seemed to lead from weakness rather than from strength, and it appeared to him that under present circumstances it would be reasonable to let suggestions for extension come from other countries.

Mr. Coombs replied that in each of the four arrangements whose terms presently were greater than three months the initiative had come from the other party. Moreover, in the current discussions among the Group of Ten several European countries had raised the question of making such longer terms more general. There seemed to be real advantages to accelerating the process at this time. He did not think that in past negotiations the other countries involved had thought the United States was leading from weakness. The dollar held so central a place in the international payments system that other countries expected the United States to feel a deep sense of responsibility for the whole system.

Mr. Swan asked what advantage there was in having the arrangements variously on six, nine, and twelve month terms, rather than employing six month terms on a uniform basis. Mr. Coombs commented that to set all terms at six months would mean cutting back the two that now were at twelve months. In his judgment, the fewest problems would be posed if

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term extensions were negotiated on a gradual basis; he would expect all of them to be at twelve months in due course.

Mr. Mitchell asked whether Mr. Coombs felt the System made any sort of moral commitment to accommodate the needs of the other country when it entered into a swap arrangement. In his judgment, arrangements with terms up to twelve months made sense in the case of major countries, but he wondered whether there was any advantage to longer-term swap arrangements with smaller nations of only peripheral importance in connection with U. S. trade and payments. It was possible, he thought, that the System might find itself in an awkward position if it had a twelve-month swap arrangement with a country of the latter type which began encountering serious payments difficulties.

Mr. Coombs commented that the System could decline to agree to a proposal for a drawing under a standby swap arrangement, and it might want to do so if the other country was in a particularly bad situation, but he thought it was desirable in general to give the country the benefit of any doubt. There also was no commitment to renew standby arrangements when they matured. However, they always had been renewed in the past, and a failure to renew in a particular case would risk giving the impression that the network was beginning to erode. Because of the expectation that maturing arrangements would be renewed, the proposal to lengthen their terms really had few substantive implications. The advantage was that longer term agreements would give an appearance of

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greater solidity to the network which, he thought, was of particular importance now in light of the discussions under way on the future of the international payments system.

Mr. Mitchell commented that he thought the mistake had been made when the network originally was extended to include some of the countries of peripheral importance. Mr. Hayes observed that most of the smaller countries in the network--such as Austria and Sweden--were in pretty solid condition. Mr. Furth added that the support given by some of these smaller countries in various international meetings to the U. S. position stressing the viability of the present payments system was perhaps attributable in part to the fact that the System had entered into swap arrangements with their central banks.

Renewal of the swap arrangement with the Bank of Sweden, with extension of term from three to six months, as recommended by Mr. Coombs, was approved.

Chairman Martin suggested that the Committee authorize negotiation of extensions to a period not to exceed twelve months of the terms of maturing swap arrangements, and no objections were made.

Mr. Coombs then noted that the Committee had received his memorandum dated June 11, 1964, concerning the request of the National Bank of Belgium to increase the rate of interest applicable to funds drawn and invested under the swap arrangement with that Bank from 2-3/4 per cent to 3-1/2 per cent. (Note: A copy of this memorandum has been

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placed in the files of the Committee.) He recommended approval of the Belgian request, which, he said, would be acceptable to the U. S. Treasury.

An increase in this rate of interest, as recommended by Mr. Coombs, was approved.

Chairman Martin then invited Mr. Hayes to bring the Committee up to date on the negotiations among the Group of Ten Deputies with respect to statistical reporting arrangements. He noted that Mr. Daane, who presently was attending the meetings in Paris, would be able to make a fuller report on this subject at the Committee's meeting of July 7. But since the matter was likely to be discussed in Basle on July 6, it was desirable for members to have an opportunity to make any comments they had today.

Mr. Hayes said that, as the Committee probably knew, the Group of Ten study group had put out a Deputies' report covering a number of subjects. Among other things, an effort had been made to systematize reporting on methods of financing imbalances in international payments. In dealing with this subject, the report referred at several points to swaps and similar short-term arrangements, although it did not devote a great deal of space to them. The American position consistently had been that it was necessary to proceed carefully with respect to reports on these operations: because of their highly sensitive character, it was important to preserve their confidentiality. The Americans also had noted that by the very nature of these operations, it was essential

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to be able to work things out promptly, and any arrangements that required multilateral surveillance would be unfortunate. The Deputies agreed with the American view that central bank credit operations were specially sensitive, and excluded them from the regular reporting system. Their report included the following statement, which the American representatives at the meeting felt was a desirable resolution of this question:

It is important that the effectiveness of central bank operations should be preserved. Hence, with respect to use of swap arrangements and other official short-term bilateral credit between central banks, the Governors of the central banks of the group may wish to consider together whether information should continue to be provided orally. The present practice of reporting has been generally successful in avoiding premature disclosures and unfortunate market reactions.

Mr. Hayes said we had taken the position, which he thought the Treasury would support, that the following principles should be adhered to: First, confidentiality should be preserved with respect to these operations, with disclosure only by mutual consent of the parties concerned. Since situations might arise in which one party to a transaction would be reluctant to disclose certain operations to all governments, both should have the right to object. Second, to the extent possible, reporting should be kept on an informal and oral basis, as in the past; information on delicate situations should not be put in a mimeographed report. Of course, the data could be published after a suitable time lag.

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With respect to transmitting information to Working Party 3, this seemed unobjectionable in principle since the System did disclose information on its own use of swap credits to central banks, so that the information presumably was available to government representatives on WP-3. Here also, reports preferably should be oral and informal, and they would best be made by the borrowing country. The same general rules would apply to disclosure of new credits and of new swap arrangements. The System, of course, did publish information promptly on new swap arrangements, and others might be encouraged to do so, although a rigid rule on the matter probably would be inadvisable.

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 May 26 through June 10, 1964, and a supplementary report covering the period June 11 through June 16, 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:

During the recent period the money market again displayed its capacity for the smooth handling of large flows of funds, accommodating without difficulty the cash sale of \$1 billion of new Treasury bills, and the flows associated with the June 10 dividend date and the June 15 quarterly corporate tax date. The net result of these factors, together with a tendency for marginal reserve availability to average somewhat below the level

of the preceding few weeks, was a slightly firmer cast to the money market. Dealer financing needs were enlarged and in turn the dealers relied more heavily on financing from the money market banks--particularly as corporations pulled money back from the dealers to pay dividends and taxes. Indicators of market tone remained within the range of variation established during recent months, however. Thus, average member bank borrowing, perhaps the best single indicator of market tone under present conditions, remained in the general area of \$200-\$300 million.

Similarly, Treasury bill rates continued to move rather narrowly over the period. Indeed, the three-month bill rate varied only between 3.46 and 3.48 per cent through most of the period, while the six-month bill ranged from 3.57 to 3.60 per cent. This stability was maintained despite the increased supplies of bills that came into the market toward mid-June with the approach of the dividend and tax dates. At least in part, the stability reflected a willingness of dealers to hold larger positions in the expectation that no significant change in interest rates is on the immediate horizon. Yesterday, the three-month bill that had been auctioned on Monday at an average issuing rate a little under 3.50 per cent edged up to a bid quotation of 3.51 per cent in the market--the first time since early April that the market rate on this maturity has exceeded the discount rate.

Prices of Treasury notes and bonds tended slightly higher during the recent period, but the rise lacked vigor and trading activity was generally light. The prevalent attitude seems to be that prices and rates are not likely to move much in either direction over the immediate future. I should mention that dealers have continued to make fairly good progress in distributing their holdings of the Treasury's recently issued 4-1/4 per cent bond; although some of these bonds were sold on switches out of other intermediate issues, dealer holdings in the 5-to-10 year maturity area were reduced by nearly \$100 million in the past three weeks.

The markets in corporate and municipal securities were mixed during the past few weeks. Underwriters generally exhibited a good interest in bidding for new issues, but investor receptions frequently were unenthusiastic. In a number of cases syndicates were terminated with appreciable balances still unsold. The ensuing upward yield adjustments were generally small, and did not suffice in all cases to complete the distribution of new issues. A noteworthy exception was the quick sellout of \$150 million General Motors Acceptances Corporation debentures at a 4.64 per cent yield.

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In the meantime, some attention is being paid in both the Treasury and other securities markets to possible Treasury financing just ahead. The most widely held view in the market seems to be that the Treasury is likely to raise around \$3 billion in July through the sale of a tax anticipation bill maturing next March. Receipts are running above expectations, however, and expenditures are thus far falling short of earlier forecasts, so that current indications are that the Treasury may not need nearly as much as \$3 billion in July, and indeed it is possible that its needs will be under \$1 billion. If this should be the case, the Treasury would probably have an opportunity to undertake some financing designed to achieve some lengthening of the debt structure. This might take the form of a cash sale of a moderate-sized issue in the note or short bond area, or it could take the form of an advance refunding operation that would perhaps be open to holders of the August 1964 maturities as well. Announcement of any new borrowing plans, however, would be contingent not only on the outcome of the Treasury's cash position but also upon Congressional action in regard to the debt ceiling. The legal ceiling drops sharply at the end of this month, and the Treasury would not be able to announce any new financing plans until a new ceiling is enacted. The upshot is that considerable uncertainty clouds the current Treasury financing scene. The calendar seems to be clear at least until near the end of June, but the Treasury may well be in the market from that point through the first part of July and again in August--with the particular types of operations still to be decided upon.

Thereupon, upon motion duly made and seconded, with Mr. Mills dissenting, the open market transactions in Government securities and bankers' acceptances during the period May 26 through June 16, 1964, were approved, ratified, and confirmed.

Mr. Mills dissented from this action because he thought the operations of the Account Management since the preceding meeting had been at fault, in a manner that he described in the course of his statement later in the meeting.

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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. Noyes presented a statement on economic conditions as follows:

In preparing for this meeting I had occasion to refer back several times to the minutes of the meetings of the Committee just after the turn of the year--and to review both my own remarks and those of others at that time. This is always a potentially embarrassing exercise, but on this occasion the reaction is more philosophical. The striking thing is that at that time we all thought, for one reason or another, that we would be able to see the economic future more clearly by June. June is now upon us and we have most of the statistics for May at hand, yet the future still seems as uncertain to me, at least, as it did four or five months ago. I am unable to persuade myself that the danger of an inflationary surge is behind us, but I find it equally difficult to develop evidence that such a surge is either underway or in immediate prospect.

In most respects the economy is moving forward along a path very close to one that observers agreed would be desirable, but few thought would be realized in all its aspects. Some doubted that we would get the amount of economic expansion which has materialized, while others felt we might get it, but that it would almost certainly be accompanied by upward pressures on both the prices of goods and services and on interest rates.

You will recall that the staff made some projections shortly after the first of the year of the quarterly pattern of GNP, the major indexes of business activity, and the flows of funds in the economy which would be consistent with the end-of-year aggregates used in the President's Budget and Economic messages. The figures for the first quarter were generally not too far from the projected pattern and early estimates for the second quarter also are surprisingly close, with deviations generally on the favorable side. Specifically, the original projection for second quarter GNP was \$618 billion and the staff is now estimating it will be around \$620 billion. The quarterly average for the production index in the projection

worked out to 130.2, which will be right on the nose if we get another 0.7 point increase in June. Unemployment is a little lower than expected, even if we assume that all of the improvement from April to May will not be maintained in June.

Price behavior is, in many ways, the biggest surprise of all. While various models were constructed on the assumption of price stability, I doubt that even the people who made the assumption had much confidence in it. I am certain that no one even imagined in January that the lead sentence of the June 15 release of the BLS on wholesale prices would read, "Primary market prices moved 0.2 per cent lower in May, continuing a down trend which has prevailed since the beginning of the year." Very few would have guessed that the upcreep in the consumer price index would be less in the first four months of 1964 than it was in 1962 or 1963. I had to pinch myself to be sure I wasn't dreaming when I found a widely read economic columnist reporting, in Monday night's paper, that price weakness was a major threat to continuing prosperity.

These isolated observations--chosen intentionally to highlight the difference between what has happened to prices and what was generally expected 5 months ago--probably exaggerate the degree of price stability we have achieved. There have been upward pressures in some important markets--notably those for nonferrous metals, where the most recent development is a 2 per cent increase in the price of aluminum ingots. Nevertheless it is hard not to be impressed, and a little puzzled, by the remarkable continuation of price stability.

To summarize, and point up some of the most recent data, the figures for industrial production, announced yesterday, showed April revised up 0.4 to 129.6, and a further gain in May of 0.7, bringing the index for last month to 130.3.

Unemployment in May dropped to a surprising, and probably unsustainable, low of 5.1 per cent.

Retail sales rose 1-1/2 per cent in May from an April level that also was revised upward.

Wholesale prices declined in May to 100.1 per cent of the 1957-59 average, which is also just 1/10 of 1 per cent above the year ago level.

Capital spending plans, as reported to Commerce-SEC, have been revised upward to show a 12 per cent year-to-year increase, but a good share of the increase is accounted for by the fact that we are doing more in the first half than expected. Hence the new survey does not imply as much of a change from the first half to the second as the earlier estimates.

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I have searched for something less trite than "just too good to be true" to say in conclusion, but that phrase fits domestic economic developments so perfectly I am unable to avoid it.

Mr. Holland made the following statement concerning financial developments:

A kind of stubborn stability has characterized interest rates and debt market conditions since about mid-May. Markets have given little ground in the face of a succession of potentially unsettling influences, ranging as widely as the stream of stronger business news, indications of less favorable balance of payments developments, investor resistance to aggressively priced new offerings in the capital market, the onset of June tax and dividend date pressures, and the publication of two weeks of relatively low free reserve figures. In part, this market stability has seemed to draw strength from renewed investor confidence that no change in monetary policy was in the offing. But there has also been an apparent close balance of supplies and demands for funds in the credit markets generally.

As Mr. Stone has indicated, the money market itself moved up to and through the tax and dividend period fairly smoothly. From mid-May up until the tax-date week itself, borrowing at the discount windows by reserve city banks actually was smaller this year than last. But out in the country member banks, signs of somewhat greater reserve pressures have been prevalent, and this has been a factor in the lower aggregate free reserve figures of recent weeks. Over the past two months, more country banks have been borrowing from the Reserve Banks; they have been borrowing greater aggregate dollar amounts; and their excess reserves have moved erratically around a lower level than earlier. Deposit reports from these banks suggest that a stronger than seasonal local credit and deposit expansion may be an important factor in this country bank experience.

There is one tax date development that may help to clarify a recent trend. According to first reports, tax date borrowing by both financial and nonfinancial corporations at the big New York City banks appears a good deal larger than expected, and considerably stronger relative to previous years than was true over the March tax date. Coming as this does on the heels of a moderately strengthened business loan demand over the last nine weeks, it may signify emerging corporate needs for a little more bank assistance in covering operating and capital outlays.

Other types of credit demands associated with purchases of goods and services have shown little change in their rate of advance since the date of the tax cut. To accommodate such loan expansion, along with temporary fluctuations in securities loans, banks as a whole have further reduced the relative importance of their investment portfolios, slowing their purchases of municipals and selling Governments on balance. These reduced bank takings of securities have been matched by the securities purchases of nonbank investors, who are channeling more of their financial investment through market instruments, and less through deposit-type intermediaries. The result has been to reduce the degree of intermediation in recent financial flows, without thus far any major impact on interest rates.

Total bank credit figures have fluctuated sharply over this period, chiefly reflecting temporary bulges associated with changes in the timing, form, and amount of Treasury financings and tax receipts. Cutting through these month-to-month swings, the average rate of growth in total bank credit over the first five months of 1964 amounted to about a 6-3/4 per cent annual rate, roughly matching the rate of expansion in gross national product. The bulk of this bank credit advance was associated with the growth in time deposits, as money supply expanded at only a 2 per cent annual rate over this period. Figures for the first part of June suggest an increase in bank credit and money supply through the tax date, with prospects for some subsequent fall-back in these aggregates through the remainder of the month.

One cannot look very far ahead, however, without taking explicit account of the potential impact of Treasury finance. Government financial operations will bulk large in future banking developments, and the possible scope of such operations is sharply different from the expectations of a few months or even a few weeks ago. As our staff sees it, the Treasury's operating balance at the end of June could now approach \$10 billion, largely because of the continuation of a less than expected rate of expenditure. This provides a cash cushion large enough to cover more than a third of the Government's entire second-half cash need, now estimated by our staff at \$11 billion, more than half of which is concentrated in July.

While this expected July-December cash deficit is \$1 to \$2 billion larger than in the two preceding years, the snap-back to a cash surplus in the succeeding January-June period is even sharper, bringing the projected full-year cash deficit to be financed to below \$4 billion for fiscal 1965, significantly

smaller than for fiscal 1964, and a shade below fiscal 1963. The consequence is to give a rare degree of flexibility to the Treasury debt managers, once the debt ceiling question is settled. If the market is not upset in the next few weeks, and the Treasury opts for one of the major debt lengthening alternatives outlined by Mr. Stone, the results from a central bank point of view should include a dampening influence on intermediate and longer term credit markets this summer, followed by a substantially lighter burden of Government financing to coincide with the seasonal rise in private credit demands this fall. Some intervening downward pressure on bill rates might result, but given the level of bank borrowings implicit in current free reserve levels, three-month bill yields should not be able to be depressed very far below the discount rate. And, looking at the broader picture, the resultant better phasing of public and private borrowing pressures could prove to be a salutary influence on future financial and economic developments.

Mr. Furth presented the following statement on the balance of payments.

The U. S. payments balance in recent weeks has been less unfavorable than in April but less favorable than during the first quarter.

According to the so-called flash report, the payments deficit amounted in the month of May to \$107 million, as compared with \$475 million for April; and the latest tentative weekly figures suggest that it continued at about the same rate during the first ten days of June. Since May is considered to be a seasonally favorable month, the seasonally adjusted annual rate of the deficit for the past six weeks was perhaps in the neighborhood of \$2 billion, slightly higher than the rates for the first four months of the year and for the second half of 1963.

This result is particularly disappointing because the financial character of the deficit has changed for the worse. Taking the ten-month period from July 1963 through April 1964, the conventionally calculated deficit of \$1.6 billion was covered by "special" receipts of \$760 million, an increase in liabilities to nonofficial foreigners of \$1,020 million, and a decline in the U. S. net position in the IMF of \$200 million. U. S. gold and foreign exchange reserves actually

rose \$40 million, and liabilities to foreign monetary authorities declined by \$320 million. Moreover, U. S. bank-reported short-term claims on foreigners rose by \$930 million. Both on the "official settlement" basis and on the "total net liquidity" basis, the deficit was fully offset by the "special" foreign debt prepayments. Counting these prepayments as the receipts which they certainly are from the point of view of liquidity analysis, the U. S. payments position in that ten-month period was actually in balance.

In contrast, the figures for the six weeks from April 30 to June 10 suggest that U. S. reserves diminished by \$160 million and liabilities to foreign authorities rose \$300 million. The conventionally calculated deficit was reduced to tolerable dimensions because foreign private dollar holdings declined by \$340 million. The tentative figures probably exaggerate the shift since (in contrast to the final data) they include international organizations among foreign authorities, and some part of the change may reflect seasonal movements, and another part of the reversal of previous dollar "swaps" between the German Federal Bank and German commercial banks. Nevertheless it seems certain that on an "official settlement" and perhaps also on a "total net liquidity" basis the deficit rate was very much higher than during the preceding ten months. Since I consider both of these bases more meaningful standards for measuring a country's international payments position than the conventional method, I am afraid that the U. S. payments position may once again have become a problem.

Unfortunately, the available data do not permit any reliable analysis of the causes of the deterioration. Three obvious possibilities may be considered:

First, the trade surplus may have been further reduced in May and June, reflecting both the upswing of the U.S. economy and the import-restricting impact of European actions.

Second, the uncertainty effect of the proposed interest equalization tax may already have worn off, especially as to Canadian borrowers; and perhaps more important, U. S. enterprises appear eager to make full use of opportunities to acquire cheaply industrial participations in European countries that suffer from a dearth of capital thanks to the credit restrictions imposed by their monetary authorities.

And third, renewed uncertainty created by rumors of revaluations and devaluations of European currencies may again have led to flows of "hot money" not only in recorded but even more so in unrecorded transactions, involving in particular a shift of foreign dollar holdings from private into official hands.

In contrast to this disappointing turn of most recent events, the favorable results of the first quarter have been reflected in the attitude of the two leading international monetary institutions, the BIS and the IMF. The Annual Report of the BIS gives the United States, for the first time in some years, a virtually clean bill of health, only mildly expressing hope that the United States would not prevent interest rates from rising if this proved necessary, and advocating some further reduction in government expenditures abroad. Similarly, the IMF draft of its report on the recent consultation with the United States expresses the conviction that the U. S. payments problem "has turned the corner." Moreover, the draft of the IMF Annual Report comes out strongly on the side of the United States in the current controversy on the working of the reserve currency system and the reform of the international payments mechanism. It unequivocally endorses the continued use of reserve currencies as international means of payments and reserve assets, and comes to the conclusion that the international liquidity problem can be fully solved by the modest increase in IMF resources advocated by the United States. In view of the reported close personal relations between the Managing Director of the IMF and the head of the country that so far has most strenuously opposed the U. S. position in the Group of Ten, the IMF report may perhaps foreshadow a successful completion of the current negotiations of that Group.

As you know, the System recently has conducted a survey of bank lending to foreigners. Not unexpectedly, it appears that ten or twelve very large banks account for the great bulk of both outstanding claims on foreigners and recent increases in such claims, particularly in the long-term sector. But as usual, these conclusions need some refinement and qualifications; if the Committee so desires, the staff will shortly distribute a more detailed statistical and analytical presentation of the results.

There was general agreement that the staff should distribute the more detailed presentation to which Mr. Furth referred in his concluding comment.

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

As we look over the whole economic and financial scene today, I think we cannot help being impressed by the solidity of the situation and the cheerfulness of the outlook, especially as compared with a year ago, or in fact with any other recent period. Most business indices are at all-time highs, and we have even seen at last some progress with that slippery problem, unemployment. I hope this progress will prove lasting. There is no doubt that confidence abroad in the dollar is stronger than it has been for several years. Yet as soon as we look behind this happy set of circumstances we cannot avoid a feeling of uneasiness over possible trouble ahead--possibly in the way of renewed inflationary pressures at home, and probably in the way of an adverse movement in our balance of payments that could cause great disillusionment abroad and could seriously jeopardize the dollar's new-found strength. Our policy decisions rarely seem easy but today they seem especially puzzling.

Most of the major statistical data that have become available in the last few weeks tend to confirm the bright business outlook, without, however, any clear signs of an accelerated advance that would turn into an authentic boom. Such data include the new Commerce-SEC survey of capital spending plans, record retail sales in May, and the decline in the unemployment rate to close to 5 per cent. Price indices continue to show the same degree of stability as in recent years, and recent specific price announcements, as well as the latest purchasing agents report, suggest that upward pressures have eased slightly. On the other hand, there is a danger that the coming major wage settlements may turn out to be excessive in comparison with over-all productivity gains.

Recent banking statistics suggest that lessened monetary ease has begun to exert a moderating influence on credit growth this year--a development which I would consider all to the good--while a similar dampening in growth rates this year is indicated with respect to bank reserves, money supply, and time deposits. On the other hand, total bank loans have been growing at a relatively fast pace, and there are some tentative signs that demand for business loans and for total nonsecurity loans may be accelerating after they lagged earlier in the year. These various developments have put increased pressure on bank liquidity, as evidenced by a continuing updrift in loan-deposit ratios. It is important to recognize, however, that none of these credit trends is yet very pronounced; the impression of a change in pace based on observations of five or six months could easily be reversed by data for a few

additional months. One major uncertainty concerns the extent to which growing business investment will be taken care of by corporate cash flows and the extent to which an increase in such requirements will bring growing demand for bank credit.

While there is no doubt that balance of payments developments during the first five months have been encouraging, especially as they point to a considerable degree of long-term improvement, the outlook is clouded by at least two very sobering considerations. In the first place, a declining tendency in the trade surplus, a substantial increase in new foreign security issues in the last couple of months, and the pronounced tendency toward higher interest rates in Europe point to the possibility of a widening deficit over the remainder of the year. Secondly, we cannot look with complacency on a deficit for the year in the range of \$1.5 to \$2 billion--for, in this seventh year of major deficits, the possibilities for orderly financing of such a sizable gap are becoming ever more difficult, and our bargaining position in international financial matters has been demonstrably weakened as our cumulative deficit has grown. We cannot afford to let this situation continue for long without taking decisive steps to check it.

These considerations, plus the ever present possibility that further business expansion could produce stronger inflationary pressures, and the inevitability of some lag between any action we might take and any substantial effects on the economy, suggest that the System should, at the very least, be poised for action as developments unfold. Unfortunately, we are entering a period when Treasury financing operations are likely to complicate our policy decisions, but at the moment the schedule of such operations is still quite uncertain. There is a free period for the next ten days or so, but by the end of this month the Treasury may be announcing some financing plans that would call for maintenance of an "even keel" through much of July. By late July, the Treasury would presumably be announcing the terms of its August refunding--or whatever remained of that refunding, in the event that part of the August maturities were pre-refunded in July.

I am inclined to think that the balance of payments outlook would justify our taking a clear step toward less credit ease at this time. On the other hand, I frankly admit the difficulty of obtaining much public support for such a move in the virtual absence of immediate inflationary developments here in this country and against the background

of the favorable first quarter balance of payments. Also the imminence of Treasury financing is an important inhibiting factor. Thus, I am led to the reluctant conclusion that we should stay our hand, insofar as an immediate policy move is concerned. It would, of course, be much more satisfactory if we could take advantage, for international purposes, of a natural tendency for interest rates to harden as domestic credit demands increase. Hopefully this may occur. I think I would confine changes in the directive to some recognition in the first paragraph of the further improvement in the business outlook, an improved unemployment situation, and the growing doubt on the international payments position for the remainder of the year. The staff's draft directive seems to cover these points admirably.

It would seem, however, that there is some room for keeping a firmer rein on the money market, or in other words "resolving doubts on the side of less ease," while still working within the terms of the current directive. In particular, I would hope that the Committee might overcome its apparent reluctance to see net borrowed reserves appear occasionally in our weekly reports. While I would not aim deliberately at net borrowed reserves, I would think in terms of a target of zero to \$100 million, with occasional swings outside of this area on both sides. As long as the current prejudice against ever showing a negative reserve figure prevails, the Desk will inevitably be forced to avoid the lower part of our target range, with a resulting tendency toward too much ease. Over the last year or so we have succeeded in persuading the market that substantial week-to-week swings in the free reserve figure do not ordinarily point to a change in monetary policy. I would hope that similarly we might "educate" the market to the view that an occasional lapse below zero is likewise without policy significance. Since our next policy move might well be in the direction of less rather than greater ease, more widely fluctuating reserve figures now would minimize expectational reactions to such a move if and when it comes.

In light of rate trends abroad, I think we should continue to keep the bill rate under close surveillance, and it would certainly be desirable to see it move five or ten points higher if this can be accomplished without an excessively tight money market. It is clearly too soon to be thinking of a discount rate change.

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I might take this occasion to invite your attention once again to the pressing need for some liberalization in maximum rates of interest under Regulation Q. For many months now the market rate on longer terms of certificates of deposit has been at or near the 4 per cent limit; and the 3-1/2 per cent savings deposit maximum (except as to long-term deposits) is working a real hardship on New York commercial banks who are competing with the prevailing 4-1/4 per cent rate offered by mutual savings banks.

Mr. Ellis reported that "steady progress" described the course of the New England economy in the recent period. Manufacturing output rose more than seasonally in April. Seasonally adjusted factory employment also rose a bit in that month, contrary to recent history. Unemployment had dropped sharply, as evidenced by data on unemployment compensation claims, and income had been rising steadily. Many farmers had concluded that potatoes would never again reach \$5 a barrel and had sold their stored supply. Recently, with the supply running short, those farmers who still had potatoes got \$6 or more per barrel, and some of the District banks had collected loans they had written off. However, many farmers had now increased their planting, and might be expected to show less of a profit.

Recent trends at District banks were continuing, Mr. Ellis said. Real estate loans were rising rapidly, loans to brokers and dealers were contracting sharply, and there was continued rapid growth in time and savings deposits. Several mutual savings banks had announced higher rates on 90-day savings deposits.

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Mr. Ellis said that the principal theme he detected in the national indicators was of a strengthening economy in a balanced expansion, without widespread price advances. As Mr. Noyes had noted, this had been the immediate objective of monetary policy, so the Committee's policy must have been appropriate to the economy. The question the Committee must resolve now was how long this policy would remain appropriate. In reaching such a judgment, the Committee should take into account that bank loans, especially business loans, had expanded more rapidly in May than in either the first four months of the year or the comparable period of last year. The initiative for credit creation seemed to be shifting to business; there had been slackened growth in bank holdings of municipals and a cut-back in their holdings of Governments.

Mr. Ellis commented that like Mr. Noyes he, too, occasionally looked back in the minutes of the Committee to check on the positions he had taken earlier. He found that for some time he had been advocating an occasional negative reserve position. But since net borrowed reserves had been avoided for so long, their appearance now undoubtedly would be regarded by the market as an intentional, aggressive move by the Committee, and not as an accident. This would be particularly likely at the present time, given the May declines in total reserves and the money supply. It seemed that the Committee could not now do what he had been urging earlier. The possible

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Treasury financing also was a consideration at present. On that note, Mr. Ellis said, he would endorse both paragraphs of the draft directive prepared by the staff.

Mr. Irons reported that conditions in the Eleventh District had shown moderate expansion during the past several weeks and he thought the indications were for further improvement in coming months. In spite of the high level of activity in many economic sectors of the District, there were no serious indications of unsustainable or excessive expansion.

Also, Mr. Irons noted, there were some areas of weakness in the District economy. Inventories of crude oil were excessive and allowables were being reduced, and some petroleum product prices were not strong. There was some softness in agricultural prices, including cattle prices. On the other hand, department store sales were at an all time high, construction activity continued to break records, employment and industrial production were edging up, and unemployment was not as high as it had been.

In the financial area, Mr. Irons said, loans in all categories, investments, and time and savings deposits at District banks all were up in the recent period, but demand deposits had declined. While loan demand was satisfactory enough, the banks would prefer to see it stronger. District banks had been buying Federal funds on balance, and borrowings at the Dallas Bank had been gyrating,

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depending upon whether some of the large banks came in for a few days or not. A somewhat larger number of banks, particularly smaller ones, were coming to the discount window. It was his expectation that even without much tightening of credit there might be more active discounting, and more problems in administering the discount window. Banks were less liquid than a year ago, and an increasing number of relatively small country banks were running reserve deficiencies. Upon checking, these were found to be putting more of their funds into the Federal funds market and keeping more fully invested in general. For a long time the excess reserves of the District's country banks had ranged from about 12 to 14 per cent of requirements, but these percentages had now dropped down to a 6 - 8 per cent range.

Mr. Irons said that in his judgment neither domestic nor foreign conditions warranted a change in policy at this time. The domestic situation was strong but it was not running away. The foreign situation appeared less favorable in the past few weeks than earlier, but he had some reservations regarding the quality of the preliminary data that were gathered, and thought it would be well to wait until more reliable figures were available. The fact that the Treasury was in the picture was another reason why it was not desirable to change policy.

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Mr. Irons thought recent policy had been quite satisfactory. There might have been a slight firming during the past few weeks, and if so that was agreeable with him. He hoped emphasis would be placed on money market conditions--on tone and feel--and that there would not be so much emphasis on free reserve figures. It was unfortunate that the Committee had built a halo around free reserves, but this probably was not the time to change the whole concept. Free reserves might be somewhere around \$100 million, but he would not be worried if the figure dropped lower. He hoped that some way might be found to discourage the market from thinking that an occasional net borrowed reserve figure would necessarily indicate a change in policy.

Mr. Irons favored a Federal funds rate at or about the discount rate, the bill rate within 5 to 7 basis points of the discount rate, and member bank borrowings in the \$200-\$300 million range. Mr. Irons did not think it practical to change policy, and he would not change the discount rate at this time. He was willing to renew the directive now in effect, but he also found the staff draft acceptable.

Mr. Swan reported that the economic situation in the Twelfth District continued to be satisfactory. Of course, employment in defense activities continued to decline, but there had been some gain, primarily of a seasonal nature, in total employment in California,

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Washington, and Utah in April and May. At the same time, however, the labor force increased more than seasonally; therefore, in contrast to the country as a whole, there was a slight increase in unemployment. Lumber production was still somewhat constrained by high inventories. The nonferrous metals situation was quite strong, and the demand for petroleum had outrun the District's production.

The San Francisco Bank had held a business outlook conference early in June, Mr. Swan said, which was attended by executives from a variety of industries throughout the District. They discussed their particular industries rather than the over-all outlook, but the sum of their views followed quite closely the standard assessment of prospects for the country as a whole. They foresaw a continued rise in consumer buying and reasonable stability in prices. They mentioned a widespread tendency for consumers to upgrade purchases in all lines.

Wage increases in the District were being accompanied by further increases in productivity, and inventory changes were expected to continue to be closely related to changes in sales rather than to anticipated price increases. They foresaw a leveling off in residential construction, but a continuing and perhaps protracted rise in plant and equipment spending. Even in the defense area, the expectation was that there would not be precipitous declines in employment. The continuation of some special problems in California agriculture

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was anticipated--including rising unit labor costs, loss of prime land to urban encroachment, and rather heavy credit needs to finance purchases of equipment, especially by fruit and vegetable growers, as mechanization was extended.

Bank loan demand continued to be quite satisfactory in the Twelfth District, as elsewhere, Mr. Swan said. City banks had been under considerable pressure in the latter part of May but in the two weeks ending June 10 they were in a much easier position. The net inflow of funds to savings and loan associations in the first four months of this year was 30 per cent less than in the same period in 1963.

Mr. Swan said he could see no basis for any change in policy at this time, in view of the nature of the business advance and in light of the very moderate growth over the first five months of 1964 in reserves, bank credit, and in money supply, and the actual declines in some cases in May. Granting that the international situation was uncertain at this point and perhaps less favorable than earlier, he did not think it provided a basis for a less easy policy as yet.

With respect to the question of market reactions to free reserve figures, Mr. Swan noted that there had been some sizable fluctuations over the past few weeks. It seemed to him that the figure had come rather close to being negative when it dipped to \$32 million, and perhaps that accomplished whatever might have been

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expected from a negative figure. He would like to see free reserves stay around \$100 million, and, if possible, member bank borrowing between \$200-\$300 million.

Mr. Swan said he was quite willing to accept the draft directive prepared by the staff. He thought the proposed changes in language from the previous directive recognized significant changes that had occurred in the national situation during the last three weeks. However, he questioned the desirability of applying the word "deterioration" to the balance of payments, in view of developments in May and early June relative to April. He would rather say "less favorable" in describing the payments situation.

Mr. Deming said he had little new to report for the Ninth District. Conditions were going along much like those of the nation. The severe floods in Montana last week had caused fairly serious damage and might have some impact on agriculture in the State. As a result of the general rains, however, crop prospects for the District as a whole now were good; until a short time ago, there had been concern about dryness.

Mr. Deming observed that Mr. Holland's description of the national banking situation applied to the Ninth District also. As Mr. Irons had noted for the Eleventh District, country banks were borrowing at the discount window more often. The loan-deposit ratio for District country banks had reached the highest point in four years,

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and they evidently were in a tighter position than had been thought. City banks did not seem to be in a tight position.

Mr. Deming favored no change in policy during the coming period. Like Mr. Noyes, he found it difficult to uncover anything very wrong with the national economic picture and liked to think that monetary policy had contributed to this result.

Mr. Scanlon commented that business trends in the Seventh District continued generally favorable. District producers of capital goods reported that orders for machinery and equipment were continuing to rise and that the current estimate of a 12 per cent rise in plant and equipment expenditures this year might be too low. Demand for farm machinery was continuing at a rate 5 to 10 per cent above last year, but analysts for various firms differed as to whether this pace would continue in the face of lower farm income.

The paper industry, currently operating close to capacity, was undertaking expansion programs which some industry analysts expected would again create problems of excess capacity possibly before the end of 1965. A large and diversified Midwest producer of chemicals reported that although the firm's over-all output was equal to only 85 per cent of capacity, facilities to produce a number of important products were being operated at virtual capacity. Unusually large inter-regional shipments had been necessary to balance supplies. Nevertheless, Mr. Scanlon said, average prices received

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by this firm for chemicals in the first quarter were only 1 per cent above the average for the fourth quarter of 1963 and were 3 per cent below the level of a year earlier.

Mr. Scanlon said a survey of large employers by his Bank's research department revealed that most of these firms were experiencing difficulty in recruiting adequate staffs even though unemployment rates were still above those of the mid-fifties. The labor supply was being increased appreciably by larger high school graduating classes this month, but large employers of office workers reported that experienced persons were still in short supply. A large Chicago area steel firm reported a substantial number of unfilled positions (equal to 1.5 per cent of its work force) not all of which required previously acquired skills. This firm continued to require that new employees be high school graduates, however. In the case of skilled metal-working trades--machinists, welders, tool makers, and the like--shortages of workers were reported generally by Midwest firms.

Mr. Scanlon reported that total loan demand at District banks in recent weeks, as in the nation, had been dominated by expansion of loans to security dealers. Although business loans at banks in the District's major cities had risen somewhat since the end of April (compared with a decline in the same period of last year) demand had been slightly less strong than in the nation.

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Reserve positions of Chicago banks were tighter than in late April and early May. This development had been accompanied by a decline in demand deposits and a rise in holdings of Treasury bills. Most of the reserve needs of these banks had been covered by purchasing Federal funds. Outstanding CDs of Chicago banks were now above \$1 billion, and at a new high, and a large proportion of these would mature in June and July.

Mr. Scanlon felt that the recent posture of policy had been about right and that it should not be changed at this time. He did not favor changing the discount rate, and the draft directive was generally satisfactory to him. Apropos Mr. Swan's suggested wording change, he said that he found it difficult to differentiate between the words "deterioration" and "less favorable."

Mr. Clay noted that the recent performance of the domestic economy had been quite encouraging. It had shown a balanced, orderly expansion in activity with the average level of prices remaining essentially unchanged. This performance, however, was simply the kind of development that had been sought as a necessary step toward the economic growth and fuller utilization of resources that was the goal of public policy.

In Mr. Clay's opinion, these domestic developments were compatible with a continuation of the same monetary policy that the Committee had been pursuing. This called for money market conditions

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remaining essentially unchanged and for reserve expansion sufficient to permit a moderate rate of growth in commercial bank credit on a seasonally adjusted basis.

Mr. Clay thought that purchases should be made in longer maturities to the extent necessary to provide reserve expansion if operations in Treasury bills would put undue downward pressure on Treasury bill yields for international payments purposes. However, the range of maturities within which operations were conducted might be conditioned by the nature of any Treasury financing.

The substance of the current economic policy directive would serve satisfactorily for the period immediately ahead, Mr. Clay said. The implementation paragraph was entirely appropriate in its present form, except for a reference to possible Treasury financing, but the first paragraph should be rewritten to reflect current economic conditions more accurately. It was his opinion that the first paragraph of the directive adopted at each meeting always should be written specifically for that meeting, as had been done very recently, rather than being readopted from the previous directive. In that way, the background statement of the directive would apply to the current situation to a degree that was not likely to prevail otherwise. It was highly probable, Mr. Clay said, that these fresh background statements for the directives would make for a stronger and more impressive public record of Committee policy actions. The staff

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draft suggested for the economic policy directive for the period immediately ahead appeared to him to be quite appropriate. Mr. Clay favored no change in the Federal Reserve Bank discount rate.

Mr. Wayne reported that business activity in the Fifth District continued to improve, but the rate of increase had apparently slackened a little, and some new uncertainties had developed. Respondents to the Bank's latest survey were considerably less optimistic than they had been a few weeks ago. Reports from nondurable goods manufacturers were mixed as usual, but the balance in new orders, backlogs, and shipments was slightly on the down side. The latest figures on nonfarm employment and manufacturing man-hours showed some slight declines. Problems of seasonal adjustment might distort this picture to some extent, but it did appear that some real abatement had occurred. Retail trade, however, continued to improve more than seasonally during May, according to both the department store statistics and the survey returns. The textile business continued generally strong, but the recently announced decision governing cotton price equalization payments had prolonged and might further complicate price and product uncertainties already present. The prosperous furniture industry appeared to have reached a plateau, possibly a temporary one, with sales at retail reportedly down a little in May. The construction industry continued to operate at or close to capacity, and the flow of new business remained heavy.

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In agriculture, up until the last three days, lack of rain in some areas seemed to be developing into a problem again this year.

Nationally, the economy was performing well, Mr. Wayne said, and the pace of activity seemed to be accelerating moderately. So far as he could see at this time, it was a well-balanced expansion with no significant bottlenecks and no overheating. Especially impressive had been the large increase in employment in recent months, the drop in unemployment in May, the sharp rise in manufacturers' new and unfilled orders in April, and the continued rapid climb in machine tool orders. These had been accompanied by slowly rising retail sales and continued high levels of activity in construction and in the production and sale of automobiles. This heightened rate of economic activity, apparently stemming in considerable part from the tax reduction of three months ago, had been initiated and maintained with hardly a ripple in the general price indexes. There might be pitfalls ahead which were not apparent now, but thus far the attempt to provide a major stimulus to the economy by fiscal means seemed to be proceeding on beam and on schedule and without the price disturbances which many had feared.

In the matter of policy, Mr. Wayne saw no reason for any change at this time. Under the policy the Committee had followed in recent months the economy seemed to be making as much progress as could reasonably be expected. While credit had been available in

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adequate amounts, increases in bank credit and the money supply had certainly not been excessive. In fact, both the money supply and the turnover of demand deposits declined in May. And the rate of growth in the money supply in the past five months had been only about half the rate of the previous six months. The continued stability of prices was additional evidence that there was no excess of purchasing power in the economy. So long as basic conditions remained as good as they now appeared to be, Mr. Wayne would favor keeping the present policy. He would keep the discount rate where it was. The draft directive was acceptable to him.

Mr. Mills made the following statement:

Even if proof of a pegged market for U.S. Government securities were needed, the operation of the System Open Market Account for the last three weeks has clearly exposed its existence even to the uninitiated. The average yield on short-term Treasury bills continued to be immobilized during this period at just under 3.50 per cent at the same time that market pressures which could not be softened by purchases of coupon U.S. Government securities caused longer term interest rates to strengthen. These developments occurred in the climate of a falling tendency of total reserves and a definite reduction in the level of free reserves. In effect, pegging the short-term structure of interest rates through Federal Reserve System actions was at the expense of imposing contractive pressures on the expansion of commercial bank credit. The clearest evidence of these pressures has been revealed in the commercial banking system's reduction of its holdings of U.S. Government securities at a time of a relatively slack demand for credit other than the financing of securities dealers.

The tight position of the commercial banking system would have been more apparent except that it has been glossed over by the constant increase in outstanding negotiable time certificates of deposit. Inasmuch as these

instruments are a form of direct borrowing by the issuing banks, it follows that the rising total of negotiable time certificates of deposit, in effect, covers over what would otherwise be a readily discernible tightness in the commercial banking system. In short, the Federal Reserve System's monetary and credit policy is exerting undue restraint over the expansion of credit and at the expense and risk of throttling down national economic activity under conditions when the absence of pronounced inflationary pressures have not called for such action. The laggardly increase occurring in the money supply is a still further indication of the restraining effects of the System's monetary and credit policy.

There are those that may argue the case for maintaining a strong interest rate posture on the grounds that interest rates are rising abroad as many foreign countries bring up their interest rate structures in order to combat domestic inflationary conditions and, therefore, it is necessary to maintain a level of interest rates in the United States high enough to prevent an outflow of funds attracted by the higher interest rate yields obtainable in many foreign countries. However, this reasoning neglects the fact that inflationary conditions abroad reflect unsound fiscal and monetary management which has weakened the exchange values of many foreign currencies and thereby has shown up the risks involved in their acquisition purely because of interest rate incentives. Instead of United States funds moving abroad under present conditions, there is apt to be a return flow. If, in the rather unlikely event United States funds should flow out merely in order to capture higher interest rates for their holders, resistance to such outflows should take the form of fiscal measures and not of monetary actions taken at the expense of weakening the domestic economy.

Under the circumstances that have developed since the Committee's last meeting, my reservations regarding its instructions to the Manager of the System Open Market Account were well taken in that during this period monetary and credit policy has moved perceptibly toward more restraint. A continuance of similar policy actions will have dangerous cumulative effects and corrective action should be taken promptly to supply the commercial banking system with reserves more freely than has been the case.

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Mr. Mills added that he strongly urged the Committee to consider the actions taken since the last meeting by the Account Management to have been at fault in carrying out the Committee's policy.

Mr. Robertson made the following statement:

The general business advance seems to me to be continuing to develop in a manner that is compatible with our present monetary policy. By that I mean not so slowly as to require any more aggressive monetary stimulus than we have been providing, but also without the kind of inflationary ebullience that would call for any move toward monetary restraint. It is gratifying to see the solid improvement in our use of real resources that is being signalled by the increases in the production index and the employment figures. I hope that they can continue, and I think our monetary policy should actively accommodate such further advances, so long as inflation remains conspicuously absent.

I see no developments on the international front that should inhibit such a policy. The seesaw movements of components of our international capital flows over the past three months do not, in my opinion, reflect responses to interest rate differentials that could or should be closed by a less easy United States monetary policy. In so far as bank loans to foreigners are concerned, I am impressed with the evidence cited by Mr. Furth that a relatively small number of banks is contributing the bulk of such increased lending. I take this as confirmation of the idea that such lending is still too narrowly confined to warrant changes in nation-wide monetary policy in order to affect it. If it is to be dealt with at all, it should be by more selective means. As for the trade portion of our payments balance, I note that our surplus is still large, even though down from its cyclical peak. I believe the most we ought to do with monetary policy in this area is to promote further noninflationary domestic business expansion.

With these broad policy objectives in mind, I favor operations by the Desk to continue to foster money supply expansion at least as strong or perhaps even stronger than the average since December, with attendant bank credit growth

about like we have had thus far this year. It may be somewhat harder to attain this money supply growth over the next month or so, because of the dampening influence of the expected build-up in Government deposits in June and the possible package of Treasury financing in July. Accordingly, I would favor money market conditions and free reserve levels more like the average that prevailed in May, rather than the somewhat tauter conditions characteristic of the first half of June. I hope that post-tax-date developments will give the Manager the opportunity to re-establish the earlier climate, and I urge that he be instructed to take every opportunity to do so. In other words, in the prospective environment of the next few weeks, I think doubts should be resolved on the side of ease.

As for the directive, I see no pressing need to change it. I have some preference for changing the reference to foreign interest rates from "advances" to "movements" in order not to seem ignorant of the fact that the bill rate trend in Canada has been downward, not upward. Similarly, in the second paragraph, I have a preference for changing the money market reference period from "recent weeks" to "the month of May" in order to make clear the intention of not continuing the slightly tighter feeling of early June. But these are nuances, and I would not resist continuation of the directive as is.

Having thus expressed my view as to the instructions we should convey to the Desk today, I want to say a word or two about the communications aspects of the daily conference telephone call with the Desk. It was exactly ten years ago last month that the morning call procedure was first established, and I believe the first suggestion for such a procedure was mine. Many of the present members of this Committee were not here then, and may not be aware of the historical setting of this arrangement, and that is what leads me to make these remarks.

From its inception, the "call" has had as its basic purpose the exchange of information. It was not conceived as an instrument for giving guidance to the Manager, for urging personal views upon him, or for detracting in any way from his sole and direct responsibility for the conduct of operations between meetings.

The call has evolved since that time, both in terms of the comprehensiveness of its contents and its rotation among the President members of the Committee. Information that I

assume is quite useful to the Desk is reported by the Board staff and by the participating President. But information is one thing, and policy guidance is another. I know that the spokesman for the Desk on the call is always careful to ask for comments on the intended program from any Federal Open Market Committee member who is participating. This is most courteous of the Desk, and I can imagine the Manager is occasionally helped by others' interpretation of what the Committee intended at its last meeting. But I think it behooves each one of us, when we reply to the Desk's invitation to comment (if we do), to be very careful to speak in terms of the Committee consensus and not our own positions--whatever they may be--and, furthermore, to speak with a view to aiding the Manager in reaching his own decision rather than endeavoring to override or even influence it.

Call procedures, of course, can be anything the Committee wants them to be. This group is perfectly free to change them at this meeting or any other. But until such time as a change is officially voted by the Committee, I think we should all make sure that our participation in the call is in accordance with the established rules of the game.

Mr. Shepardson said he did not think he could add significantly to the comments that had been made about the general condition of the economy. The advance was moving in a sustained way that he found satisfactory. Like Mr. Ellis, he had been poised for a long time against the conditions he thought were approaching. Reports of what was going on in the labor area indicated that pressures might develop which would bring the outbreak of price increases that the Committee had been concerned about. He continued to feel that the Committee should keep itself in position to move as early as the situation seemed to justify toward restraining inflationary pressures before they got out of hand.

The desirability of greater fluctuations in free reserve figures had been mentioned, Mr. Shepardson continued, including a possible dip

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below zero from time to time. The figures for the last few weeks indicated that there already had been a good deal of fluctuation. For example, the figure for last week was down to \$32 million, and this morning the projection for the current week was back up to \$186 million. It seemed to him that if the figure happened to go to zero or below the fluctuation would be within a pattern that already had been established and would not be detrimental.

Mr. Shepardson thought that the operations of the Desk in the last three weeks had accomplished what the Committee had desired. He favored maintaining about the same money market conditions and the degree of ease that had prevailed in the past three weeks. In his judgment, continued fluctuation in free reserves would be helpful. He approved the draft directive that had been distributed to the Committee before the meeting.

Mr. Mitchell commented that he also was uneasy about some of the things that Mr. Mills found disturbing. He thought the point that several people had mentioned--that banks were in a tight position--was more real than the Committee had realized. The tightness had resulted from the efforts of banks to justify paying 4 per cent for CD money by rearranging their portfolios, and they had about reached the end of the line in this connection. Although there was some evidence of increased loan demand, an upsurge in business borrowing had not yet occurred, and if one developed banks would have little room left to

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meet it. Mr. Mitchell thought that the Committee would have to be prepared to accommodate it--and not grudgingly--if there was to be a lift in the tempo of activity.

The second thing that concerned him, Mr. Mitchell said, was the money supply. While he was not of the school that considered the money supply the only variable of importance in monetary policy, he did not think the Committee could afford to disregard its behavior over an extended period. According to the revised figures, the money supply increased at a 4 per cent rate in the second half of 1963, but had risen at only a 2 per cent rate so far this year. There were various signs indicating that the economy was straining to live with the money supply the Committee was providing. For one thing, turnover, while down slightly in May, was above the level of last year; users were having to economize on money.

Even more persuasive was the behavior of the currency component of the money supply, Mr. Mitchell said. Currency increased at rates of 6.1 and 6.7 per cent, respectively, in the last five months of 1963 and so far this year, while demand deposits rose at rates of 2.6 and 1.2 per cent in those two periods. It was not certain that this differential behavior was a cause for alarm but it suggested to him that the economy was not being provided with enough money.

Mr. Mitchell said he was not deeply alarmed about the recent trend in the money supply, but he would become so if the same trend

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continued for long. He could not say what the right rate of growth was but he would feel more comfortable with a 4 per cent rate than with 2 per cent.

Mr. Mitchell agreed with Mr. Hayes that the balance of payments problem was worrisome. He did not find the decline in the trade balance discouraging; the first quarter trade surplus was larger than anyone had a right to expect, and the present level of the surplus was more in line with reasonable expectations. The balance of payments problem, in his judgment, was largely a matter of capital outflows, and like Mr. Robertson he thought selective measures should be used to deal with it. Banks obviously were contributing substantially to the outflows, and should be brought under the interest equalization tax. He did not think monetary policy was the answer. The Committee should be trying to insure that the tax cut would raise the domestic growth rate and would reduce unemployment from its present level, which most countries would regard as intolerable.

Referring to Mr. Mills' comments on the evidences of tightness in the past three weeks, Mr. Mitchell noted that the Account Management had undershot the target of \$100 million for free reserves in four out of the past six periods. He was not critical of the Manager; the way to deal with this problem, he thought was to fix the free reserve target at \$200 million.

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Mr. Mitchell expressed satisfaction with the directive that the staff had drafted. He would like to have more attention given to monetary expansion, and he thought that would be accomplished by the higher free reserve target he had suggested.

Mr. Hickman said the highlight of the business news in May was the sharp rise in retail sales complemented by a further appreciable increase in industrial production. This was the first month since the tax cut that there were pronounced increases in both production and sales, he noted.

Recent developments in the Fourth District indicated a continuation of a moderate, balanced improvement in business, Mr. Hickman said. Steel production increased slightly in the District in the most recent three weeks in contrast to a small decline in the nation. Steel producers who reported to the Cleveland Bank indicated that demand for steel was strong, although June orders, seasonally adjusted, were expected to be slightly below those of May, and markedly below orders in April. The seasonally adjusted rate of insured unemployment continued to decline during the most recent three-week period in almost all major labor markets of the District except Cleveland, where work stoppages among construction workers depressed employment. It was perhaps worth noting in passing that settlements recently reached in several of the building trades in Cleveland were quite generous and far exceeded the Administration's

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guidelines. Several local major construction projects might be postponed because of higher breakeven points.

At the board meeting of the Cleveland Bank last week, the directors seemed to feel that, notwithstanding the record level of retail sales in May, the closing of many retail outlets on Memorial Day, which was a Saturday, might have deferred some demand until June. This would, of course, help to increase retail sales in June, perhaps somewhat similarly to the way in which the figures for February were helped by the five Saturdays in that month. The sharp recovery in Fourth District department store sales in the week ended June 6 lent some credence to this opinion. Perhaps further basic statistical work might be justified on trading-day, holiday and Saturday adjustments of the retail sales data. Similarly, the strength in industrial production in the first half of each of the four years 1961 to date suggested possible review of the seasonal pattern of that index.

Mr. Hickman continued to be disturbed by the widening spreads between interest rates here and abroad. The latest discount rate increases in Holland and Denmark, as well as possible similar steps or a firming of rates in London and elsewhere, might add further to the imbalance in rates between the United States and other countries, he said. Europeans, with their vivid experiences with inflation, were not disposed to overlook the classical remedies for fighting inflation and balance of payments difficulties.

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This led Mr. Hickman once again to urge that the Committee and the Treasury reappraise the international financial position. The present domestic economic situation did not indicate the need at this time for added stimulus through monetary means. A minor firming of rates in this country would not check the balanced business expansion, but might help the international position of the United States.

So far as recent figures on credit availability were concerned, Mr. Hickman said, there seemed to have been a close conformity to the Committee's intent, allowing for the usual errors in reserve estimates. On the other hand, the money market had continued slightly easier than he thought desirable. Projections of free reserves suggested wide swings over the next three weeks, which might make the reserve estimates more unreliable than usual. This being the case, Mr. Hickman said, the Desk should probably be guided more by the volume of borrowings and the feel of the market than by the usual marginal and aggregate reserve measures.

United States monetary posture here and abroad could, in Mr. Hickman's opinion, be improved if the 91-day bill rate rose slightly further and then fluctuated within the 3.50-3.60 per cent range, and the rate on long-term Governments moved gradually upward to 4.20 per cent from the 4.15 per cent level where it had held for the past few weeks. In addition, Mr. Hickman commented, the Special Manager,

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Mr. Coombs, might wish to consider whether anything further could be done in the forward markets to reduce the covered differentials that now existed in favor of London and Montreal. Perhaps the Treasury might wish to consider offering a strip of bills, in addition to increasing the regular weekly offerings, and some possible debt lengthening.

Mr. Hickman said that he would not recommend an increase in the discount rate at this time, and in fact, would seek to avoid such an increase by forehanded action. He liked the revisions of the current economic policy directive suggested by the staff, although he thought the reference to unemployment might be premature in view of the large number of teenagers who had probably already entered the labor force.

In a concluding comment, Mr. Hickman said he was particularly appreciative of the guidance Mr. Robertson had provided with respect to the morning calls. In the one period during which he had participated in the call he had noted some exchanges that seemed to him to border on harassment of the Manager.

Mr. Bopp said that business was good in the Third District. Labor demand and the status of the labor force remained strong or improving. Unemployment claims (Pennsylvania and Delaware) had been low all year, and remained so; unemployment rates were decreasing in most of the District's labor markets; and help-wanted indicators were strong in most cities of the District.

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Output appeared reasonably vigorous. Electric power consumption by District manufacturing industries increased steadily from January through April. Manufacturing employment had increased very slowly, however, and had failed to match national increases.

Department store sales relative to 1963 totals equaled the national advance. However, sales in the District were being compared to abnormally low levels in 1963.

Since the Committee's last meeting, Mr. Bopp said, reserve pressures on District member banks had diminished somewhat and loans continued to rise. The basic reserve deficit of Reserve city banks averaged around \$28 million during the three weeks ending June 10. This compared to an average deficit of \$63 million in the preceding three-week period. Borrowing at the discount window continued to be relatively light.

Business loans at weekly reporting member banks during the same three-week period rose \$9 million, compared to a \$3 million decline last year. Both business loans and net loans adjusted continued to run well above last year.

Recent economic developments, in Mr. Bopp's judgment, provided little evidence to support a move toward monetary restraint. It was true that inventories, retail sales, and capital spending plans had all risen. But inventory policies remained quite conservative and near-term business and consumer spending showed little probability

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of pressing upon productive capacity. The fact that prices had been so steady reflected the ability of business to meet demand without encountering pressures on capacity. As for the labor market, he was, of course, happy to see the recent decline in unemployment. Nevertheless, the percentage of unemployed still remained high and the decline in the percentage stemmed partly from relative stability in the labor force, a condition which might already have been upset.

On the international front, Mr. Bopp continued to be impressed by the stability of unit labor costs in this country. He thought that so long as American costs remained under control the basic deficit was likely to remain within manageable proportions. It would be important, of course, to watch flows of short-term capital closely, especially with some interest rates rising abroad.

In line with this view of the domestic and international situations, Mr. Bopp had some reservations about the recent trend of reserve availability and the money supply. With bank liquidity declining and with possibilities for increased demand for credit as the economy expanded, he was inclined to resolve doubts on the easier side. The proposed directive appeared appropriate and he would not change the discount rate.

Mr. Bryan commented that in terms of many statistical series the Sixth District seemed to be doing less well than the nation as a whole. The series in which the District was doing better seemed to be almost entirely in the financial area.

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As for the national economy and monetary policy, Mr. Bryan said he had come to the meeting today with a rather changed attitude of mind. Others had spoken well on the question of the money supply. What troubled him, however, was the behavior not of the money supply but of the reserve series. He did not want to associate himself in any way with those who charged the Committee with the strangulation of the economy. But looking forward, he thought the Committee was headed for trouble very soon if aggregate reserves were to continue to expand only at the recent rate, because the economy was outpacing the supply of reserve funds that were being created. Accordingly, he felt as some others did, that doubts should be resolved in the direction of supplying additional amounts of reserves. In terms of a free reserve figure, Mr. Bryan said he placed his target for the next three weeks at \$150 million, with, of course, allowance for latitude on the part of the Manager. In terms of aggregate reserves he thought that the target, at a minimum, should be a 3 per cent rate of growth, and his personal preference was nearer to a 4 per cent rate.

Mr. Bryan said he was as alarmed about the balance of payments problem as anyone else around the table, but he continued to think that the Committee could make only a minor contribution to its solution. For monetary policy to make a major contribution, a deflation of the U. S. economy would be required of such proportions as to be neither desirable nor tolerable.

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Mr. Shuford said that business activity in the Eighth District, in contrast to the nation, had shown little change since late last year. This was not to be taken as disturbing, since activity was at a relatively high level, but the District certainly had not had the same expansion as the nation. Employment had shown a downward drift recently, and value added in manufacturing and bank debits had changed little since last year. On the other hand, business loans had risen markedly since April, with major gains in the categories of construction, retail trade, and durable goods manufacturing.

Mr. Shuford said he favored no change in policy. The national situation had been covered adequately this morning; in summary, the economy was continuing to expand at a reasonable rate, with the major indexes either rising or remaining at advanced levels. The pace of activity might be accelerating, but the expansion appeared balanced and prices remained steady. The balance of payments situation now perhaps was less favorable than in the earlier part of the year, but at present, the problem did not appear to be of proportions serious enough to call for any change in policy.

With respect to monetary developments, Mr. Shuford's view was that they had been reasonably appropriate for the conditions with which the Committee was confronted and had been confronted for months. Reserves had declined a bit recently and so had the money supply, but total reserves had risen at 1-1/2 per cent rate since December. The

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money supply, according to the revised series, had been rising at 2 per cent rate since last year, somewhat less than he had formerly thought.

Certainly, Mr. Shuford said, he was among those who agreed that money does matter; most did, but there were differences of opinion as to how it mattered. He would favor a further moderate growth in the reserve base. While he did not know what growth rate would be best, he would not be disturbed by a continuation of the recent 1-1/2 per cent rate in light of the conditions that had prevailed during the past few months and with the possibility of acceleration. He also would like to see an increase in the money supply, at a rate preferably in the range from 2 to 3-1/2 per cent, but a 4 per cent growth rate would not disturb him. Late last year he had been pleased to see a 4 per cent rate and had not been particularly disturbed by 5 per cent; but when the rate hit 6 per cent he had been happy to see it recede.

It seemed to Mr. Shuford that the Desk had observed the directive in the past 3 weeks and had maintained about the same conditions in the money market. He would continue the same policy and would expect this to result in continued moderate growth in the reserve base and in a reasonable increase in the money supply. He favored no change in the discount rate, and he thought the draft directive was acceptable, with the substitution of "less favorable" for "deterioration" in referring to the balance of payments situation.

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Chairman Martin, referring to the comments that had been made on the behavior of the money supply, said he did not believe that recent fluctuations had had much impact on developments as yet. He thought Mr. Robertson had made a desirable point in connection with the morning call. In his opinion, however, the business of monetary policy involved harrassment from beginning to end, and anyone who could not take harrassment would be better off outside the field.

On policy, the Chairman continued, the problem that weighed most heavily in his thinking at the moment was that of Treasury financing. The Treasury had a difficult row to hoe; all of the debt lengthening that had been accomplished would be lost rapidly if they were unable to move forward. A firming of interest rates would bring rates up against the 4-1/4 per cent ceiling and would require that financing be at the short end of the market. Accordingly, it was his judgment that any move at this juncture toward either an easier or a tighter monetary policy would be a mistake. He hoped the Desk would not have any doubts to resolve, but if it did, unlike Mr. Hayes, he would favor resolving them on the side of ease.

Chairman Martin then proposed that the Committee be polled on the basis of no change in policy. It developed that this was the consensus, with Mr. Mills dissenting.

Mr. Mills said the difficulty was that if the Committee adopted a policy of no change it had to be no change from some previous position,

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and in his judgment the developments of the last three weeks were toward tightening undesirably. Therefore, it was impossible for him to vote for a policy of no change.

In voting favorably, Mr. Robertson said he hoped that doubts would be resolved on the side of ease; Mr. Mitchell commented that he assumed the Desk had been trying to do what the Committee wanted even though he personally was unhappy with the results; and Mr. Hickman expressed satisfaction with the recent operations of the Desk.

Chairman Martin commented that it should be clear that no one was impugning the Manager's integrity in this matter, but that the members were applying their individual judgments on a subject that was a matter of judgment.

Turning to the directive, the Chairman said he thought the draft that the staff had prepared was good. He noted that a number of language changes had been proposed, including a suggestion that the phrase "less favorable" rather than the word "deterioration" be used in describing the recent performance of the balance of payments. This involved a slight change in emphasis, but the choice was largely a matter of taste. He, too, would be inclined to make some minor changes if he were writing the directive himself. On the other hand, he thought the text as drafted was satisfactory for its purpose, which was to reflect the Committee's general thinking. As he had said before, words meant different things to different people and they often involved concepts that could not be defined narrowly. It was not likely that a directive could be written that would please everyone.

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Chairman Martin then proposed that the Committee vote on adoption of the directive as drafted by the staff, except for the modification he had mentioned in the reference to the balance of payments.

Thereupon, 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 the reserve base, bank credit, and the money supply for the purpose of facilitating continued expansion of the economy, while fostering improvement in the capital account of U. S. international payments, and seeking to avoid the emergence of inflationary pressures. This policy takes into account the recent data on production, actual and planned business capital outlays, retail sales, and unemployment, which indicate some quickening in the pace of domestic expansion. It also gives consideration to the continued relative stability in average commodity prices; the continued underutilization of manpower and other resources; the country's less favorable international payments position thus far in the second quarter; and the interest rate advances over past months in important markets abroad.

To implement this policy, and taking into account probable Treasury financing activity, 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, Hickman, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Vote against this action: Mr. Mills.

At this point Chairman Martin called for distribution of a memorandum on the Committee's current economic directive that had been

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prepared by Messrs. Ellis, Mitchell, and Swan in accordance with a request made by the Committee at its meeting on May 5. (Note: A copy of this memorandum, which was dated June 16, 1964, has been placed in the files of the Committee.) The Chairman then invited Mr. Mitchell to comment.

Mr. Mitchell said he thought all of those who had worked on the report had experienced a sense of satisfaction that he hoped the others would share as they read it. It had been a rewarding experience. While the directive problem was a difficult one, it was not intractable; something could be done about it, and he hoped the report represented progress.

As the Committee would note, Mr. Mitchell continued, the recommendations made were quite specific. The authors did not mean to be dogmatic. They did not feel that the course they recommended was the only possible one, or that it necessarily was the best one; it was simply the best at which they could arrive. Their objects were to give the Committee some specific proposals to which it could react, and to help create a climate in which desirable changes could evolve.

Finally, Mr. Mitchell said, he wanted to note that the Board's staff had worked hard in assisting in the report's preparation. The final document was only about 12 pages long, apart from illustrative material, and he believed the Committee would be interested in reading it.

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Chairman Martin said the Committee was indebted to Messrs. Ellis, Mitchell, and Swan, and to the staff, for their work on this report. It was agreed that the report would be discussed by the Committee at the meeting to be held on July 28.

It was agreed that the next meeting of the Committee would be held on Tuesday, July 7, 1964, at 9:30 a.m.

Thereupon the meeting adjourned.


Assistant Secretary