RECORD OF POLICY ACTIONS
OF THE FEDERAL OPEN MARKET COMMITTEE

The record of policy actions of the Federal Open Market Committee is presented in the ANNUAL REPORT of the Board of Governors pursuant to the requirements of Section 10 of the Federal Reserve Act. That Section provides that the Board shall keep a complete record of the actions taken by the Board and by the Federal Open Market Committee on all questions of policy relating to open market operations, that it shall record therein the votes taken in connection with the determination of open market policies and the reasons underlying each such action, and that it shall include in its ANNUAL REPORT to the Congress a full account of such actions.

In the pages that follow, there are entries with respect to the policy actions taken at the 19 meetings of the Federal Open Market Committee during the calendar year 1964, including the votes on the policy decisions made at those meetings as well as a résumé of the basis for the decisions, as reflected by the minutes of the Committee.

It will be noted from the record of policy actions that in some cases the decisions were by unanimous vote and that in other cases dissents were recorded. The fact that a decision in favor of a general policy was by a large majority, or even that it was by unanimous vote, does not necessarily mean that all members of the Committee were equally agreed as to the reasons for the particular decision or as to the precise operations in the open market that were called for to implement the general policy.

The policy directives of the Federal Open Market Committee are issued to the Federal Reserve Bank of New York as the Bank selected by the Committee to execute transactions for the System Open Market Account. Both the Manager of the System Open Market Account and the Special Manager of the Account for foreign currency operations attend the meetings of the Committee. In the area of domestic open market activities the Bank

operates under two separate policy directives from the Open Market Committee—a continuing authority directive and a current economic policy directive. At the beginning of the calendar year the continuing authority directive in effect was as follows:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the current economic policy directive adopted at the most recent meeting of the Committee:

(a) To buy or sell U.S. Government securities in the open market, from or to Government securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government securities with the Treasury or allow them to mature without replacement; provided that the aggregate amount of such securities held in such Account (including forward commitments, but not including such special short-term certificates of indebtedness as may be purchased from the Treasury under paragraph 2 hereof) shall not be increased or decreased by more than $1 billion during any period between meetings of the Committee;

(b) To buy or sell prime bankers' acceptances of the kinds designated in the Regulation of the Federal Open Market Committee in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed $75 million or 10 per cent of the total of bankers' acceptances outstanding as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York;

(c) To buy U.S. Government securities with maturities of 24 months or less at the time of purchase, and prime bankers' acceptances with maturities of 6 months or less at the time of purchase, from nonbank dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities or acceptances in 15 calendar days or less, at rates not less than (a) the discount rate of the Federal Reserve Bank of New York at the time such agreement is entered into, or (b) the average issuing rate on the most recent issue of 3-month Treasury bills, whichever is the lower; provided that in the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

2. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York to purchase directly from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the rate charged on such certificates shall be a rate ¼ of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases; and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed $500 million.

This directive was amended on several occasions during the year. As noted in the entries for the respective dates, the limit on changes in holdings of securities in the System Open Market Account during any period between meetings of the Committee, specified in paragraph (a) of Section 1, was raised to $1.5 billion on January 7, restored to $1 billion on February 11, and raised once more to $1.5 billion on March 3, where it remained throughout the rest of the year; certain clarifying revisions were made in the language of the preamble and paragraph (a) of Section 1 on March 3; and the limit on System Account holdings of bankers' acceptances, specified in paragraph (b) of Section 1, was increased from $75 million to $125 million on November 10.

The current economic policy directive was changed frequently during the year, as shown in the respective policy record entries. The current economic policy directive that was in effect at the beginning of 1964 instructed the Federal Reserve Bank of New York as follows:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources; and the fact that the balance of payments position is still adverse despite a tendency to reduced deficits. It also recognizes the increases in bank credit, money supply, and the reserve base of recent months.

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

In the foreign currency area, the Federal Reserve Bank of New York operates under (1) an authorization regarding open market transactions in foreign currencies, (2) a statement of guidelines for System foreign currency operations, and (3) a continuing authority directive on System foreign currency operations.

The authorization regarding open market transactions in foreign currencies in effect at the beginning of and throughout the year read as follows:

Authorization Regarding Open Market Transactions in Foreign Currencies

Pursuant to Section 12A of the Federal Reserve Act and in accordance with Section 214.5 of Regulation N (as amended) of the Board of Governors of the Federal Reserve System, the Federal Open Market Committee takes the following action governing open market operations incident to the opening and maintenance by the Federal Reserve Bank of New York (hereafter sometimes referred to as the New York Bank) of accounts with foreign central banks.

I. Role of Federal Reserve Bank of New York

The New York Bank shall execute all transactions pursuant to this authorization (hereafter sometimes referred to as transactions in foreign currencies) for the System Open Market Account, as defined in the Regulation of the Federal Open Market Committee.

II. Basic Purposes of Operations

The basic purposes of System operations in and holdings of foreign currencies are:

(1) To help safeguard the value of the dollar in international exchange markets;
(2) To aid in making the existing system of international payments more efficient and in avoiding disorderly conditions in exchange markets;
(3) To further monetary cooperation with central banks of other countries maintaining convertible currencies, with the International Monetary Fund, and with other international payments institutions;
(4) Together with these banks and institutions, to help moderate temporary imbalances in international payments that may adversely affect monetary reserve positions; and
(5) In the long run, to make possible growth in the liquid assets available to international money markets in accordance with the needs of an expanding world economy.

III. Specific Aims of Operations

Within the basic purposes set forth in Section II, the transactions shall be conducted with a view to the following specific aims:
(1) To offset or compensate, when appropriate, the effects on U.S. gold reserves or dollar liabilities of disequilibrating fluctuations in the international flow of payments to or from the United States, and especially those that are deemed to reflect temporary forces or transitional market unsettlement;
(2) To temper and smooth out abrupt changes in spot exchange rates and moderate forward premiums and discounts judged to be disequilibrating;
(3) To supplement international exchange arrangements such as those made through the International Monetary Fund; and
(4) In the long run, to provide a means whereby reciprocal holdings of foreign currencies may contribute to meeting needs for international liquidity as required in terms of an expanding world economy.

IV. Arrangements with Foreign Central Banks

In making operating arrangements with foreign central banks on System holdings of foreign currencies, the New York Bank shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee.

The Bank shall instruct foreign central banks regarding the investment of such holdings in excess of minimum working balances in accordance with Section 14(e) of the Federal Reserve Act.

The Bank shall consult with foreign central banks on coordination of exchange operations.

Any agreements or understandings concerning the administration of the accounts maintained by the New York Bank with the central banks designated by the Board of Governors under Section 214.5 of Regulation N (as amended) are to be referred for review and approval to the Committee, subject to the provision of Section VIII, paragraph 1, below.

V. Authorized Currencies

The New York Bank is authorized to conduct transactions for System Account in such currencies and within the limits that the Federal Open Market Committee may from time to time specify.

VI. Methods of Acquiring and Selling Foreign Currencies

The New York Bank is authorized to purchase and sell foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the Stabilization Fund of the Secretary of the Treasury established by Section 10 of the Gold Reserve Act of 1934 and with foreign monetary authorities.

Unless the Bank is otherwise authorized, all transactions shall be at prevailing market rates.

VII. Participation of Federal Reserve Banks

All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3 G (1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

VIII. Administrative Procedures

The Federal Open Market Committee authorizes a Subcommittee consisting of the Chairman and the Vice Chairman of the Committee and the Vice Chairman of the Board of Governors (or in the absence of the Chairman or of the Vice Chairman of the Board of Governors the members of the Board designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee his alternate) to give instructions to the Special Manager, within the guidelines issued by the Committee, in cases in which it is necessary to reach a decision on operations before the Committee can be consulted.

All actions authorized under the preceding paragraph shall be promptly reported to the Committee.

The Committee authorizes the Chairman, and in his absence the Vice

Chairman of the Committee, and in the absence of both, the Vice Chairman of the Board of Governors:

(1) With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Secretary;

(2) To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on such policy matters as may relate to the Secretary's responsibilities;

(3) From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Problems.

IX. Special Manager of System Open Market Account

A Special Manager of the Open Market Account for foreign currency operations shall be selected in accordance with the established procedures of the Federal Open Market Committee for the selection of the Manager of the System Open Market Account.

The Special Manager shall direct that all transactions in foreign currencies and the amounts of all holdings in each authorized foreign currency be reported daily to designated staff officials of the Committee, and shall regularly consult with the designated staff officials of the Committee on current tendencies in the flow of international payments and on current developments in foreign exchange markets.

The Special Manager and the designated staff officials of the Committee shall arrange for the prompt transmittal to the Committee of all statistical and other information relating to the transactions in and the amounts of holdings of foreign currencies for review by the Committee as to conformity with its instructions.

The Special Manager shall include in his reports to the Committee a statement of bank balances and investments payable in foreign currencies, a statement of net profit or loss on transactions to date, and a summary of outstanding unmatured contracts in foreign currencies.

X. Transmittal of Information to Treasury Department

The staff officials of the Federal Open Market Committee shall transmit all pertinent information on System foreign currency transactions to designated officials of the Treasury Department.

XI. Amendment of Authorization

The Federal Open Market Committee may at any time amend or rescind this authorization.

The guidelines for System foreign currency operations in effect at the beginning of the year were as follows:

Guidelines for System Foreign Currency Operations

1. Holdings of Foreign Currencies

Until otherwise authorized, the System will limit its holdings of foreign currencies to that amount necessary to enable its operations to exert a market influence. Holdings of larger amounts will be authorized only when the U.S. balance of international payments attains a sufficient surplus to permit the ready accumulation of holdings of major convertible currencies.

Holdings of a currency shall generally be kept sufficient to meet forward contracts in that currency (exclusive of contracts made under parallel arrangements with foreign monetary authorities which provide their own cover) expected to mature in the following 3-week period.

Foreign currency holdings above a certain minimum shall be invested as far as practicable in conformity with Section 14(e) of the Federal Reserve Act.

2. Exchange Transactions

System exchange transactions shall be geared to pressures of payments flows so as to cushion or moderate disequilibrating movements of funds and their destabilizing effects on U.S. and foreign official reserves and on exchange markets.

In general, these transactions shall be geared to pressures connected with movements that are expected to be reversed in the foreseeable future; when expressly authorized by the Federal Open Market Committee, they may also be geared on a short-term basis to pressures connected with other movements.

Subject to express authorization of the Committee, the Federal Reserve Bank of New York may enter into reciprocal arrangements with foreign central banks on exchange transactions ("swap" arrangements), which arrangements may be wholly or in part on a standby basis.

Drawings made by either party under a reciprocal arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

The New York Bank shall, as a usual practice, purchase and sell authorized currencies at prevailing market rates without trying to establish rates that appear to be out of line with underlying market forces.

If market offers to sell or buy intensify as System holdings increase or decline, this shall be regarded as a clear signal for a review of the System's evaluation of international payments flows. This review might suggest a temporary change in System holdings of a particular convertible currency and possibly direct exchange transactions with the foreign central bank involved to be able to accommodate a larger demand or supply.

Starting operations at a time when the United States is not experiencing a net inflow of any eligible foreign currency may require that initial System holdings (apart from sums that might be acquired from the Stabilization Fund) be purchased directly from foreign central banks.

It shall be the practice to arrange with foreign central banks for the coordination of foreign currency transactions in order that System transactions do not conflict with those being undertaken by foreign monetary authorities.

3. Transactions in Spot Exchange

The guiding principle for transactions in spot exchange shall be that, in general, market movements in exchange rates, within the limits established in the International Monetary Fund Agreement or by central bank practices, index affirmatively the interaction of underlying economic forces and thus serve as efficient guides to current financial decisions, private and public.

Temporary or transitional fluctuations in payments flows may be cushioned or moderated whenever they occasion market anxieties, or undesirable speculative activity in foreign exchange transactions, or excessive leads and lags in international payments.

Special factors making for exchange market instabilities include (i) responses to short-run increases in international political tension, (ii) differences in phasing of international economic activity that give rise to unusually large interest rate differentials between major markets, or (iii) market rumors of a character likely to stimulate speculative transactions.

Whenever exchange market instability threatens to produce disorderly conditions, System transactions are appropriate if the Special Manager, in consultation with the Federal Open Market Committee, or in an emergency with the members of the Committee designated for that purpose, reaches a judgment that they may help to re-establish supply and demand balance at a level more consistent with the prevailing flow of underlying payments. Whenever supply or demand persists in influencing exchange rates in one direction, System transactions should be modified, curtailed, or eventually discontinued pending a re-assessment by the Committee of supply and demand forces.

4. Transactions in Forward Exchange

Occasion to engage in forward transactions will arise mainly when forward premiums or discounts are inconsistent with interest rate differentials and are giving rise to a disequilibrating movement of short-term funds, or when it is deemed appropriate to supplement existing market facilities for forward cover as a means of encouraging the retention or accumulation of dollar holdings abroad.

Proposals of the Special Manager to initiate forward operations shall be submitted to the Committee for advance approval.

For such operations, the New York Bank may, where authorized, take over from the Stabilization Fund outstanding contracts for forward sales or purchases of authorized currencies.

The New York Bank may also, where authorized, purchase currencies through forward transactions for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements.

The New York Bank may further, where authorized, purchase and sell currencies through forward as well as spot transactions for the purpose of settling commitments denominated in one currency by means of utilizing the Bank's holdings of another currency.

5. Exchange Rates

Insofar as practicable, the New York Bank shall purchase a currency through spot transactions at or below its par value, and should lower the rate at which it is prepared to purchase a currency as its holdings of that currency approach the established maximum.

The Bank shall also, where practicable, sell a currency through spot transactions at rates at or above its par value, and should raise the rate at which it is prepared to sell a currency as its holdings of that currency approach zero.

Spot transactions at rates other than those set forth in the preceding paragraphs shall be specially authorized by the members of the Committee designated in Section VIII of the Authorization for Open Market Transactions in Foreign Currencies.

A revision was made in these guidelines at the meeting of October 20, 1964, as noted in the entry for that date.

The continuing authority directive with respect to foreign currency operations in effect at the beginning of 1964 was as follows:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations reaffirmed by the Federal Open Market Committee on March 5, 1963, as amended May 28, 1963; provided that the aggregate amount of foreign currencies held under reciprocal currency arrangements shall not exceed $2.05 billion equivalent at any one time, and provided further that the aggregate amount of foreign currencies held as a result of outright purchases shall not exceed $150 million equivalent at any one time:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs
Belgian francs
Canadian dollars
Austrian schillings
Swedish kronor
Japanese yen

The Federal Reserve Bank of New York is also authorized and directed to operate in any or all of the foregoing currencies in accordance with the Guidelines and up to a combined total of $150 million equivalent, by means of:

(a) purchases through forward transactions, for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements;
(b) purchases and sales through forward as well as spot transactions, for the purpose of utilizing its holdings of one currency for the settlement of commitments denominated in other currencies; and
(c) purchases through spot transactions and sales through forward transactions, for the purpose of restraining short-term outflows of funds induced by arbitrage considerations.

The Federal Reserve Bank of New York is also authorized and directed to make purchases through spot transactions, including purchases from the U.S. Stabilization Fund, and concurrent sales through forward transactions to the U.S. Stabilization Fund, of any of the foregoing currencies in which the U.S. Treasury has outstanding indebtedness, in accordance

with the Guidelines and up to a total of $100 million equivalent. Purchases may be at rates above par, and both purchases and sales are to be made at the same rates.

This directive was amended on two occasions during the year, as noted in entries for October 20 and November 24. The effects of the amendments were to specify an additional purpose for which forward transactions in foreign currencies were authorized and to modify the amounts of the dollar limits specified for foreign currency operations.

January 7, 1964

1. Authority to effect transactions in System Account.

As 1963 ended, economic activity was continuing to advance at a moderate pace, consumer prices were rising slowly further, and wholesale prices were little changed at about the level that had prevailed for 6 years. The unemployment rate had been relatively stable for 2 years; in 1963 it averaged 5.7 per cent of the civilian labor force and in 1962, 5.6 per cent. Stock market prices were at record levels, and interest rates on Government securities and high-grade corporate and municipal bonds were higher than a year earlier. For example, yields on longer-term high-grade bonds were up ⅛ to ¼ of a percentage point, and yields on 3-month Treasury bills were about ⅝ of a point higher. Not all interest rates had advanced, however; in particular, mortgage yields were little changed from their April levels and were below those of December 1962. Recent estimates suggested that the deficit in the U.S. balance of international payments was reduced appreciably in the second half of 1963 to an annual rate of about $1½ billion, and that the deficit for the year as a whole might have been below $3 billion. While still large, this would be the smallest deficit for any year since 1957.

Gross national product in the fourth quarter of 1963 was unofficially estimated at a $597-598 billion annual rate, 5½ per cent above a year earlier. Much of the recent strength in activity was attributable to high levels of consumer spending. After a slight dip in November, retail sales increased substantially to a record volume in December, as gains were recorded in all durable and most nondurable categories.

Business spending continued relatively cautious despite reportedly widespread optimism about the outlook. There had been some increase in the rate at which manufacturers increased inventories in October and November, but a survey indicated that they planned to reduce the rate of inventory accumulation in the first quarter of 1964. Business plans for fixed capital outlays called for little change from the record fourth-quarter level in the first quarter of the new year and a modest rise in the second quarter.

In the financial area, bank credit expansion in December was substantially smaller than in November, according to preliminary estimates. The seasonally adjusted money supply changed little from the first half of November to the first half of December, and growth in time and savings deposits appeared to have slackened markedly in December. Free reserves averaged about $150 million in the final 4 weeks of the year, compared with a little over $100 million in the preceding 4 weeks. Money market conditions on the whole were steadier than usual for this season of the year.

Yields on 3-month Treasury bills had fluctuated in a narrow range in December and early January, holding slightly above the 3½ per cent discount rate on most days in that period. Treasury note and bond yields edged up to new 1963 highs before leveling off late in December, and corporate bond yields reached their highest levels in over a year at the end of that month. It was reported that the Treasury might forego part of its anticipated January cash financing because of an unexpectedly strong cash position, and that it was actively considering an advance refunding in the immediate future.

Tentative weekly figures on U.S. international payments in

December indicated a surplus of about $450 million in that month, and implied a fourth-quarter deficit at an annual rate even below the reduced third-quarter figure. While part of the December surplus may have represented temporary transfers of funds for window-dressing purposes, trade figures through November suggested that some of the recent improvement in the payments balance was due to higher exports. On the other hand, outstanding short-term bank loans to foreigners increased sharply in October and November.

Economic activity abroad continued to expand. Inflationary developments appeared to be threatening in a number of European countries and continued to be evident in less developed areas.

The Committee agreed that no change should be made in its monetary and credit policy at this meeting, although several members indicated that they would have favored some shift toward less ease at this time on both domestic and international grounds if Treasury financing had not been in immediate prospect. These members felt that the recent rates of growth in bank reserves, bank credit, money supply, and nonbank liquidity were greater than justified by the needs of the domestic economy and had contributed to the large volume of foreign lending by U.S. banks. They also noted that rising foreign interest rates associated with efforts of the authorities in several countries to curb domestic inflationary pressures might induce increased short-term capital outflows. Even taking the Treasury financing into account, these members felt that it would be appropriate to reduce free reserves from the somewhat higher levels of recent weeks and to counter any downward seasonal pressures on short-term interest rates.

Other members, emphasizing the absence of boom conditions and psychology, the continued high level of domestic unemployment, the broad stability of commodity prices, and the recent improvement in the payments balance, felt that a shift to less ease would be undesirable even apart from the prospective

Treasury financing; they preferred to continue the current monetary policy as long as these circumstances obtained. For the immediate future, they saw no objection to somewhat lower short-term rates arising from seasonal or other market forces. Some members expressed the view that excessive stability in Treasury bill rates was undesirable on its own account.

The Committee's current economic policy directive to the Federal Reserve Bank of New York, as issued at this meeting, differed from that in effect at the beginning of the year only by the addition of a reference to Treasury financing in the second paragraph. It read as follows:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources, and the fact that the balance of payments position is still adverse despite a tendency to reduced deficits. It also recognizes the increases in bank credit, money supply, and the reserve base of recent months.

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

Votes for this action Messrs. Martin, Hayes, Balderston, Bopp, Clay, Daane, Mitchell, Robertson, Scanlon, Shepardson, and Shuford. Vote against this action: Mr Mills.

Mr. Mills dissented from this action because he believed that a somewhat more liberal provision of reserves would yield beneficial economic returns, without complicating the Treasury's financing program.

2. Amendment of continuing authority directive.

On recommendation of the Account Manager, Section 1(a) of the continuing authority directive to the Federal Reserve

Bank of New York was amended to raise from $1 billion to $1.5 billion the limit on changes in holdings of securities in the System Open Market Account between meetings of the Committee. With this amendment, Section 1(a) read as follows:

(a) To buy or sell U.S. Government securities in the open market, from or to Government securities dealers and foreign and international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government securities with the Treasury or allow them to mature without replacement; provided that the aggregate amount of such securities held in such Account (including forward commitments but not including such special short-term certificates of indebtedness as may be purchased from the Treasury under paragraph 2 hereof) shall not be increased or decreased by more than $1.5 billion during any period between meetings of the Committee.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Daane, Mills, Mitchell, Robertson, Scanlon, Shepardson, and Shuford. Votes against this action: None.

January 28, 1964

Authority to effect transactions in System Account.

Information available at this meeting confirmed earlier indications that the domestic economy had ended the year 1963 on a strong note, and scattered data for January suggested that activity was continuing to expand. GNP in the fourth quarter was now estimated at a $600 billion annual rate, a little higher than previous estimates. Prospects for a Federal income tax reduction early in 1964 recently had improved. However, businessmen's announced spending plans suggested quiet optimism rather than exuberance, and a substantial volume of unutilized resources was still available for further expansion.

Industrial production increased about one-half of a percentage point in December but still was only fractionally above the level reached in July. Nonfarm employment also rose, but the unemployment rate in December was 5.5 per cent, the same as a year earlier. Retail sales advanced in December, and weekly reports for early January indicated that sales were holding close to the advanced December rate.

The weekly index of wholesale prices edged up in early January as some industrial prices strengthened and earlier sharp declines in livestock and meat prices were followed by some recovery. Over-all, however, wholesale prices remained in the narrow range that had prevailed for several years. Stock market prices rose further in January on large trading volume.

Seasonally adjusted bank credit apparently continued to expand in early January but at a much slower rate than in the preceding 2 months. The money supply and time and savings deposits both rose substantially further. Free reserves fluctuated widely from week to week, but it appeared that the January average would be about $150 million, not much different from December.

The yield on 3-month Treasury bills had edged down slightly since the preceding meeting to 3.50 per cent, the same as the discount rate. The Treasury's recently completed advance refunding had little effect on yields on Government bonds, which were relatively stable near the levels reached at the year-end. Yields on new corporate bonds had eased recently from the highs recorded earlier in the month, and municipal yields also declined somewhat. It was reported that the Treasury would announce shortly the terms of its February refunding.

The consensus of the Committee at this meeting favored no change in monetary and credit policy. Among the reasons advanced by different members were the imminent Treasury financing, the lack of any significant change in the economic and financial situation, and the advantages seen in maintaining the present policy posture until the effects of the impending Federal tax cut could be observed. Some members noted that they con-

tinued to be concerned about recent rapid rates of growth in bank reserves, bank credit, and nonbank liquidity, and about actual and potential price developments.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources; and the fact that the balance of payments position is still adverse despite a tendency to reduced deficits. It also recognizes the increases in bank credit, money supply, and the reserve base of recent months.

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

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Mitchell, Robertson, Scanlon, Shepardson, and Shuford. Votes against this action: None. Abstaining: Mr. Mills.

Mr. Mills abstained because he felt that he could not subscribe to a policy directive that called for "no change" when in reality fluctuations in the supply of bank reserves in his judgment had signaled policy changes that were unrecognized in the directives.

February 11, 1964

1. Authority to effect transactions in System Account.

New data available since the previous meeting of the Committee reflected further improvement since the beginning of the year in the balance of payments, continuing high levels of domestic business activity, and stability in broad commodity price indexes. Business plans for 1964 now called for plant and equipment outlays 9 per cent higher than in 1963, according to a special private survey taken in January. In October the same survey had indicated that 1964 outlays would be 4 per cent above the 1963 level.

There were no significant changes in January in industrial production, nonfarm employment, or the unemployment rate. Retail sales also were little changed from the advanced December level. Industrial commodity prices remained firm, and prices of farm products and foods increased from their low December level. Stock market prices rose further to new highs.

Bank credit declined a little more than seasonally in January following a period of vigorous growth in late 1963. Most categories of loans showed only moderate increases, and the expansion in total loans was more than offset by reductions in bank holdings of securities, particularly Treasury securities. The seasonally adjusted money supply declined in the second half of the month, after rising substantially in the first half. Time deposits expanded more in January than in other recent months, largely because of a sharp pick-up in negotiable time certificates of deposit outstanding.

In security markets, the yield on 3-month Treasury bills remained at or slightly above the discount rate. Treasury bond prices had firmed somewhat recently as investor demand improved under a combination of influences, including lower-than-anticipated estimates of Federal expenditures for the fiscal year 1965, statements by Federal officials suggesting that they expected bond yields to remain relatively stable in the period ahead, and the continued improvement in the balance of payments. Corporate security prices also were stronger than earlier. The volume of new corporate security issues, including private placements, was relatively large in January, but public offerings were light, as is usual early in the year.

Tentative figures indicated that in January the deficit in the U.S. balance of payments was at a rate slightly below the reduced level of the second half of 1963. Cyclical expansion under way

in most industrialized foreign countries apparently was maintaining its momentum at the year-end.

The Committee agreed that its recent monetary and credit policy remained appropriate in view of the continued high rate of unemployment and the lack of immediate inflationary pressures domestically, and the reduction in the balance of payments deficit internationally. It was noted, however, that the improvement in the payments balance might later prove to have been temporary, and that price developments warranted close watching in light of the present state of business optimism and the likely expansionary effect of the prospective Federal tax reduction. It also was noted that the tax cut might have been anticipated to some extent by spenders and investors, and that the magnitude and timing of effects still to come were highly uncertain. Several members expressed the view that it would be inappropriate to modify policy in the direction of less ease at present in the absence of clear and convincing evidence of the need for such a change.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in bank credit, while maintaining conditions in the money market that would contribute to continued improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the fact that domestic economic activity is expanding further, although with a margin of underutilized resources; and the fact that the balance of payments position is still adverse despite a tendency to reduced deficits. It also recognizes the increases in bank credit, money supply, and the reserve base of recent months.

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

Votes for this action: Messrs. Martin, Balderston, Bopp, Clay, Daane, Irons, Mitchell, Robertson, Scanlon, Shepardson, and Treiber. Votes against this action: None. Abstaining: Mr. Mills.

Mr. Mills abstained on the same grounds as at the preceding meeting.

2. Amendment of continuing authority directive.

The Account Manager suggested that under present conditions the continuing authority directive to the Federal Reserve Bank of New York, which had been amended on January 7, 1964, to raise from $1 billion to $1.5 billion the limit on changes in the System Open Market Account holdings of securities in the period between meetings of the Committee, might appropriately be changed to restore the former figure of $1 billion. Accordingly, the Committee amended Section 1(a) of that directive by inserting "$1 billion" and deleting "$1.5 billion."

Votes for this action: Messrs. Martin, Balderston, Bopp, Clay, Daane, Irons, Mills, Mitchell, Robertson, Scanlon, Shepardson, and Treiber. Votes against this action: None.

March 3, 1964

1. Authority to effect transactions in System Account.

Attention was focused at this meeting on two developments of major importance: (1) enactment on February 26 of legislation reducing Federal tax rates on personal and corporate incomes, effective as of the first of the year, and reducing withholding rates on personal incomes from 18 to 14 per cent, effective March 5; and (2) an increase on February 27 from 4 to 5 per cent in the discount rate of the Bank of England.

These events occurred against a background of strength in the domestic economy, a high degree of consumer and business confidence in economic prospects, and further improvement in the U.S. balance of payments. At the same time, commodity price averages were relatively stable, unemployment continued

high, and industrial capacity was being used at less than optimum rates.

In Government securities markets the initial reaction was quite mild both to the tax cut, which had been long anticipated, and to the increase in the Bank of England discount rate. Yields on intermediate- and longer-term issues rose slightly, and the 3-month Treasury bill rate moved up to 3.60 per cent from the levels closer to the 3½ per cent discount rate that had prevailed for several months.

At commercial banks, credit expansion appeared to have resumed in February after a small decline in January, according to the seasonally adjusted figures. The February expansion was relatively large, and the annual rate of growth for the first 2 months of the year probably was close to the 8 per cent average rate of increase in 1963. Preliminary figures indicated that the money supply had drifted down somewhat further from the early January high, but that it was 4 per cent above a year earlier. Savings deposits at commercial banks had tended to grow less vigorously since the first of the year than earlier, but the expansion in time deposits, including negotiable certificates, continued rapid. Preliminary figures indicated that free reserves in February averaged about $100 million, somewhat below the average levels of December and January.

Although the volume of new private security issues was fairly light in February, yields on new corporate issues had been under some upward pressure in recent weeks. In part this reflected renewed market discussions of the possibility of higher interest rate levels in coming months.

Tentative figures on the U.S. balance of payments in February suggested that the deficit in that month was below the reduced January level despite a sizable increase in domestic acquisitions of foreign bonds. Through December the U.S. trade balance was continuing to improve, and in January imports were relatively stable for the eighth month in a row.

The Committee agreed that it was too early to assess the effects of either the tax cut or the increase in the Bank of England discount rate on the domestic economy and the U.S. balance of payments, and that no change in monetary policy was in order at present. It now appeared that the uncertainties about the domestic outlook related mainly to the pace at which the economy would advance over coming months rather than to the question of whether it would advance. The ultimate effects of the tax cut on the international payments balance seemed likely to be mixed. On the one hand, rising levels of domestic output might lead to increased imports and thus reduce the recently highly favorable trade balance. On the other hand, improved business activity might dampen net capital outflows even in the absence of a significant rise in domestic interest rates, by increasing the attractiveness of investment in this country to both domestic and foreign investors. The main threat to continued favorable developments in the balance of payments appeared to be posed by the possibility of larger outflows of volatile funds in response to interest rate increases abroad. As yet, however, there was no indication of any movement of short-term funds from the United States to Great Britain as a result of the discount rate action of the Bank of England and the associated increases in market rates in London.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

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

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

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

Mr. Mills dissented because he interpreted the statistics reflecting developments in bank reserves since the beginning of February as indicating that the Committee had moved to a more restrictive credit policy under successive directives that called for "maintaining about the same conditions in the money market as have prevailed in recent weeks." He felt that repeating this language in the directive issued at the present meeting would indicate a definite shift toward a restrictive credit policy, which in his opinion was objectionable.

2. Amendment of continuing authority directive.

The Committee amended the preamble and paragraph (a) of Section 1 of its continuing authority directive to the Federal Reserve Bank of New York with respect to transactions in U.S. Government securities, repurchase agreements, and bankers' acceptances (1) to increase from $1 billion to $1.5 billion the limit on changes in holdings of U.S. Government securities in the System Open Market Account between meetings of the Committee, and (2) to clarify the language of this part of the directive. The language of the directive previously in effect is set forth in the preface to this record of Federal Open Market Committee policy actions for 1964. As amended, the preamble and paragraph (a) of Section 1 of the directive read as follows:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the most recent current economic policy directive adopted at a meeting of the Committee:

(a) To buy or sell U.S. Government securities in the open market, from or to Government securities dealers and foreign international accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the System Open Market Account at market prices and, for such Account, to exchange maturing U.S. Government securities with the Treasury or allow them to mature without replacement; provided that the aggregate amount of such securities held in such Account at the close of business on the day of a meeting of the Committee at which action is taken with respect to a current economic policy directive shall not be increased or decreased by more than $1.5 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting.

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

The increase in the dollar limit on changes in security holdings was made on the recommendation of the Account Manager. The limit of $1 billion originally had been adopted on June 22, 1955, when the executive committee of the Federal Open Market Committee, to which the full Committee formerly had issued its directives, was abolished. Since 1955 the amplitude of fluctuation in market factors affecting member bank reserves and, consequently, in System Account holdings of Government securities, had increased considerably. On several occasions, most recently on January 7, 1964, the Account Manager had reported that greater leeway probably would be required over the period immediately ahead, and the Committee temporarily had increased this limit from $1 billion to $1.5 billion. Because it seemed likely that the greater leeway would be required more often in the future, it appeared desirable to provide for the larger limit on a continuing basis.

With respect to the language changes, it was noted that certain phrases in the directive previously in effect were susceptible to differing interpretations; that the beginning and the end of the period to which the restriction applied were not specified as

precisely as desirable; and that the Committee's intent regarding operations following a meeting at which no action was taken with respect to a current economic policy directive (such as at the meeting held on June 21, 1962) was not clear. The language revisions were made for purposes of clarification on these points and were not intended to affect the substance of the directive.

In dissenting from the action on the continuing authority directive, neither Mr. Mills nor Mr. Robertson expressed objections to the increase in the dollar limit or to the revisions in language. Mr. Mills dissented because he favored resumption of the directive procedure that had been in effect prior to December 19, 1961, when the Committee had issued a single directive at each meeting rather than the separate "continuing authority" and "current economic policy" directives that had been employed since that date. He thought that in the earlier, single directive the Committee's intent with respect to current policy had been expressed more clearly in clause (b) of paragraph 1 than it was in the current economic policy directives of the present type. Mr. Robertson dissented because he felt that the present continuing authority directive provided inadequate restrictions on, and guidelines for, operations in the System Open Market Account.

3. Review of continuing authorizations.

This being the first meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1964, and their assumption of duties, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The action taken with respect to the continuing authority directive for domestic open market transactions has been described in the preceding portion of the entry for this date.

The Committee reaffirmed its authorization regarding open market transactions in foreign currencies, its guidelines for System foreign currency operations, and its continuing authority directive on foreign currency operations, in the form in which all three were outstanding at the beginning of the year 1964, as set forth in the preface to this record of policy actions.

Votes for these actions: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against these actions: None.

March 24, 1964

Authority to effect transactions in System Account.

Reports at this meeting indicated that the economy continued to show moderate upward momentum. The industrial production index rose by about one-half of a percentage point in February to a level 6 per cent above a year earlier. Both total employment and the labor force increased, and the unemployment rate declined slightly to 5.4 per cent from 5.6 per cent in January. Retail sales reached a new high in February, 4 per cent above a year earlier. Sales in the first 2 weeks of March maintained the same moderate gain over the year-earlier level and did not show any significant immediate response to the reduction in the withholding tax rate, effective March 5.

The Commerce–SEC survey of business plant and equipment expenditure plans for 1964, taken in February, confirmed earlier indications by a private survey of a larger increase in outlays this year than expected earlier. The Government survey indicated that these outlays would be 10 per cent above their 1963 level, a gain of about twice that of the previous year. However, businesses were continuing to follow conservative inventory policies; inventories declined in January from levels that were already unusually low relative to sales.

Indexes of wholesale prices continued stable despite increases for a number of commodities, particularly nonferrous metals. The average for industrial commodities in February and early

March was about 0.5 per cent higher than a year earlier and little changed from 2 years or 3 years earlier. The consumer price index in January was up 1.6 per cent from January 1963. Stock market prices continued to rise in early March.

Commercial bank credit expanded considerably more than seasonally in the first 3 weeks of March, according to data for city banks. The largest gains were in short-term Government security holdings and in loans to security dealers and finance companies; business loans apparently rose less than usual. The seasonally adjusted money supply increased in the first half of March, bringing the annual rate of growth so far this year to 3.4 per cent compared with 3.8 per cent in 1963 as a whole. Time and savings deposits rose moderately in the same period.

Short-term financial markets took the March tax-date pressures in stride. The yield on 3-month Treasury bills edged lower in the first week of the month and remained relatively stable over the following 2 weeks in the range of 3.53-3.56 per cent, as the market gained confidence that the increase in the Bank of England discount rate would not be followed immediately by a trend toward tighter monetary conditions in this country. In longer-term markets, prices of Treasury, State and local government, and corporate bonds tended lower in recent weeks. Yields on intermediate- and long-term Governments moved to their highest levels since early 1960, partly as a result of market expectations that rates probably would be moving upward in coming months. It was reported that the Treasury was considering an offering of securities for cash, with payment scheduled toward the end of the first week in April.

The latest balance of payments figures suggested that the United States was making unexpectedly rapid progress in reducing its international deficit. Tentative figures for the first 3 weeks of March showed a substantial surplus and raised the possibility that payments for the first quarter as a whole might approach balance for the first time since 1957.

The Committee agreed that neither domestic nor international considerations called for a change in monetary and credit policy at this time, and that in any case it was desirable to maintain an "even keel" in the money markets in view of the probable Treasury financing. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

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

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

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

Mr. Mills dissented from this action because the directive instructed the Account Management to maintain about the same conditions in the money market as had prevailed in recent weeks, and in his judgment these conditions had moved toward restriction rather than expansion, as evidenced by the increases in longer-term interest rates. He thought higher interest rates were unwarranted and would lead observers to conclude that the System was already moving to counteract price and credit excesses which it foresaw. Such interpretations, he felt, should be promptly corrected by increasing the supply of reserves to a level that would give reasonable encouragement to credit expansion.

April 14, 1964

Authority to effect transactions in System Account.

The data available to the Committee at this meeting did not suggest a quick response by consumers to the early March reduction in income tax withholding rates. Retail sales in that month were below the record February level as sales of durable goods, including new autos, declined and sales of nondurable goods were unchanged.

Other information for March suggested little change from the recent pattern of moderate business expansion. The unemployment rate remained at 5.4 per cent, wholesale commodity price averages continued stable, and the industrial production index again rose by one-half of a percentage point. Revised business inventory figures for January showed a rise rather than the decline previously reported, but preliminary figures for February indicated no further increase, and stock–sales ratios were below their relatively low fourth-quarter average.

Bank credit expanded substantially in March; in the first quarter as a whole it rose at an annual rate of about 11 per cent, compared with 8 per cent in the full year 1963. However, first-quarter growth rates in the privately-held money supply and in commercial bank time and savings deposits were somewhat below those recorded during 1963. These differential movements reflected mainly a recent sizable increase in Government deposits. Among the components of bank credit, first-quarter rates of increase in business loans and in holdings of municipal and Federal agency issues were considerably below those of 1963. On the other hand, the rate of increase in loans other than business loans stepped up in the first quarter, and banks acquired a substantial volume of Government securities after reducing their holdings during 1963.

Free reserves of member banks averaged about $100 million in March, little changed from February, but they were higher in the latter part of the month and in early April.

In security markets, yields on corporate and municipal issues had stabilized in recent weeks at levels close to the highs reached around the turn of the year. However, yields on Treasury notes and bonds—particularly those of intermediate maturity—declined, and rates on 3-month Treasury bills fell below the 3½ per cent discount rate for the first time since early December. The volume of new corporate security offerings was expected to be at a record level in April as a result of an unusually large corporate stock issue. State and local government offerings also were expected to increase sharply.

A substantial surplus was recorded in the U.S. balance of payments in March, according to tentative figures. It appeared possible that a small surplus would be shown for the first quarter as a whole, although this was not yet certain. The improvement occurred despite a continued large volume of short-term bank loans and acceptance credits to foreigners. It apparently was due to a large surplus on trade account, near balance in flows of portfolio capital, and a decline in net Government expenditures abroad. Various projections suggested that the payments balance would deteriorate somewhat over the rest of the year but that it would still show improvement relative to 1963.

The Committee concluded that its recent policy remained appropriate in light of the continued moderate pace of the domestic economic advance and the improvement in the U.S. international payments position. Another factor influencing this conclusion was the expectation that the Treasury would be announcing the terms of its May refunding in about 2 weeks. Some members felt that money market conditions had been unduly easy in the period since the last meeting, as evidenced, among other ways, by the recently higher level of free reserves and the decline in the Treasury bill rate. These members, who were in the minority, advocated open market operations with a view to attaining slightly firmer conditions.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

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

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

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

Mr. Hickman dissented from this action because he thought the implementation of policy since the preceding meeting had produced easier money market conditions than the Committee had intended. In his judgment present conditions were inconsistent with the best interests of the U.S. economy in view of current business optimism, earlier growth rates in member bank reserves, and the threat of increased capital flows abroad. Mr. Shepardson noted that consumer prices were continuing to drift upward and that the margin of excess industrial capacity had been reduced significantly. He thought the economy was close to a point where there could be significant upward pressures on prices and that continuation of the current posture of ease might necessitate drastic action later. Accordingly, he favored a moderate reduction from the recently prevailing degree of ease in order to put the Committee in a better position to cope with any inflationary pressures that might develop. Mr. Balderston indicated that he shared the concerns expressed by Messrs. Hickman and Shepardson.

May 5, 1964

Authority to effect transactions in System Account.

The latest information continued to indicate that business activity was expanding at a moderate, sustainable pace. GNP in the first quarter, according to preliminary estimates, was at an annual rate of $608.5 billion. It exceeded GNP in the fourth quarter of 1963 by an amount about equal to the average quarter-to-quarter increase during 1963. However, the gain from the fourth quarter of 1963 to the first quarter of 1964 was less than the preceding quarterly increase because of a reduction in the rate of business inventory investment. First-quarter profits of manufacturing corporations, aided by stable unit labor costs, firm prices, and expanding volume, were considerably larger than in the first quarter of 1963.

Business confidence continued high. A private survey taken in March and early April of business plans for new plant and equipment outlays in 1964 showed an increase of better than 12 per cent from 1963, compared with a 9 per cent rise reported in a comparable survey in January. However, the new figure was not believed to have implications significantly different from those of the 10 per cent increase shown by the February Commerce–SEC survey because of differences in methodology and coverage of the two canvasses.

Industrial production, according to early indications, probably rose further in April. On the other hand, retail sales data through the third week in April showed a small further decline from the moderately reduced March level. The broad wholesale price averages continued to change little. Common stock prices edged up to a new peak in mid-April, but then declined about 1 per cent.

Data for city banks suggested that the rate of bank credit expansion moderated in April. U.S. Government deposits were reduced sharply, and the growth rate in time deposits continued to taper off. The privately held money supply grew substantially

in April after showing no net change from January through March.

Most financial markets reflected the lack of ebullience evident in nonfinancial areas. Many investors had expected that interest rates would rise significantly after the tax cut as a result of strong credit demands, but developments thus far had failed to bear out these anticipations. Long-term bond yields changed little in recent weeks, yields on intermediate-term Treasury securities declined further, and the 3-month Treasury bill rate fluctuated in a range of 3.44-3.49 per cent.

On April 29 the Treasury announced an exchange offering for the $10.6 billion of obligations maturing May 15, in which holders of rights would be given the option of an 18-month note or a 10-year, 4¼ per cent bond.

Tentative weekly data on the U.S. balance of payments in April suggested a deficit of about the same order of magnitude as the March surplus. For both months, the figures apparently were influenced by movements of liquid funds from and to Canada. It appeared that the deficit for the first 4 months of the year was at an annual rate of $1 billion to $1.5 billion after rough allowance for seasonal factors, compared with an annual rate of about $2 billion in the second half of 1963.

The Committee agreed that its recent policy should be continued unchanged for the next 3 weeks. Some members indicated that they considered recent monetary conditions somewhat easier than desirable, particularly in view of the renewed deficit in the balance of payments. Because of the Treasury's scheduled refunding operation these members did not urge a change at this time, but they suggested that a somewhat firmer tone in the money market might appear desirable when the refunding had been completed. The majority, however, saw no need for a change in policy even apart from Treasury financing activity.

The following current economic directive was issued to the Federal Reserve Bank of New York:

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 further 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 expected stimulus to domestic activity from the recent Federal income tax reduction, and the increases projected for the year in business capital expenditures. It also gives consideration to the continued relative stability in average commodity prices; the country's improved, though still difficult, international payments position; and the interest rate advances over past months in important markets abroad.

To implement this policy, and taking the current Treasury refunding into account, 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, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, Wayne, and Treiber. Votes against this action: None.

May 26, 1964

Authority to effect transactions in System Account.

The pace of the economic expansion appeared to have quickened somewhat. In April the industrial production index rose a full point, according to preliminary estimates, following smaller gains in preceding months; there was a significant increase in new and unfilled orders received by durable goods producers; and employment rose substantially, although the unemployment rate remained unchanged because of an equivalent increase in the labor force.

Retail sales data for the first 2 weeks in May suggested that sales in the month might be back up close to their February peak. According to a Census Bureau survey conducted in mid-April, the number of families planning to buy new cars within

12 months was higher than a year earlier, and plans to buy most other durable goods were as strong as or stronger than in the previous year.

Wholesale commodity price averages remained generally stable in April and early May. The consumer price index in March was unchanged from January and was 1.4 per cent above March 1963. In the stock market, prices recovered from their late April declines and moved to new record levels in mid-May.

The configuration of recent banking and monetary statistics had been changed somewhat as a result of benchmark adjustments to the data and revisions of seasonal adjustment factors. According to the new data, which were still tentative, in the first 4 months of 1964 the money supply increased at an annual rate of 2.9 per cent, as compared with 3.7 per cent for the full year 1963. In the tentative new figures for bank credit the rate of increase in the first 4 months was somewhat below the rate for the preceding full year. Loans expanded in April at about the same rate as in the first quarter and slightly faster than in 1963 as a whole, but banks made substantial net sales of Government securities. Free reserves of member banks averaged about $140 million in April, somewhat higher than in the two preceding months, but they were reduced again in early May.

Treasury note and bond yields had tended lower in recent weeks, and the rate on 3-month Treasury bills continued to fluctuate below the discount rate. Municipal yields also moved downward from their late March high, partly because of a light May calendar following a heavy volume of offerings in April. The calendar of public offerings of corporate bonds expanded substantially in May, and yields on new issues rose to a peak early in the month, but subsequently they declined somewhat.

The deficit in the U.S. balance of payments in April was somewhat larger than the March surplus, according to preliminary estimates. Tentative figures (seasonally unadjusted) for the first half of May indicated a surplus in that period, but it was noted that normal seasonal influences tend to be favorable to the payments balance in May.

In the Committee's judgment, the current domestic economic situation was strong and well balanced and the expansion was orderly. The restraint characterizing recent business pricing and inventory policies was noted. In view of these considerations, the continued high rate of unemployment, and the improved international payments position of the United States so far this year, it was agreed to continue the Committee's policy unchanged. Some members indicated that the Committee would need to keep the balance of payments problem in the forefront of its considerations over the coming months because part of the recent improvement may have been due to transitory factors, and because the prospective deficit for the year as a whole remained too large.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

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. With the recent Federal income tax reduction, continued strength reported in consumer buying plans, and anticipated increases in business capital expenditures as immediate background, this policy takes into account the indications in most recent data on production, business orders, and employment of some apparent quickening in the pace of domestic expansion. It also gives consideration to the continued relative stability in average commodity prices; the persistent underutilization of manpower and other resources; the country's improved, though still adverse, international payments position this year; and the interest rate advances over past months in important markets abroad.

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

Votes for this action: Messrs. Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, Wayne, and Treiber. Votes against this action: None.

June 17, 1964

Authority to effect transactions in System Account.

There was additional evidence that the business advance had accelerated, but the expansion remained orderly and largely free of inflationary tendencies and speculative overtones. Nonfarm employment rose only slightly in May, but the labor force was unchanged and the unemployment rate dropped sharply to 5.1 per cent, the lowest level in several years. Industrial production increased about three-fourths of a percentage point in May, and retail sales exceeded the previous record level set in February. The April figures for both production and retail sales had been revised upward.

Business spending also had increased somewhat in recent weeks, but policies with respect to inventories continued cautious. Although stocks were increased in April at a substantially higher rate than during the first quarter, the additions were about in line with increases in sales. Stock–sales ratios remained unusually low, and manufacturers reported in a Commerce Department survey that they planned to expand stocks in coming months at a lower rate than they expected sales to increase.

A Commerce–SEC survey taken in May revealed that actual first-quarter outlays on plant and equipment were larger than had been planned in February, and it tended to confirm the earlier indication that capital outlays would increase throughout the year. According to the survey returns, such outlays in 1964 would be 12 per cent above the 1963 level, rather than 10 per cent higher as indicated in February.

The wholesale price index edged lower in May to 100.1 per cent of the 1957-59 average. Industrial prices remained stable and those of foodstuffs declined. Stock market prices declined a little from the record level reached in mid-May, and trading volume slackened.

Bank credit expanded substantially in May following a small reduction in April. Loans grew more rapidly than earlier in the year, and holdings of U.S. Government securities were reduced further. Through May 1964, bank credit had expanded at an annual rate of 6.6 per cent, compared with 8 per cent in the full year 1963. Both the money supply, which averaged moderately lower in May, and commercial bank time and savings deposits, which rose further, also showed smaller rates of increase in the first 5 months of 1964 than in 1963 as a whole. Data for early June, however, suggested that a sizable increase in the money supply was occurring in that month. Free reserves declined in May to about $100 million and fell somewhat further in early June as member bank borrowings rose from their relatively low April level.

In security markets the rate on 3-month Treasury bills continued to fluctuate slightly below the discount rate in recent weeks, and yields on other Treasury securities and on private securities showed little change. Many market observers expected the Treasury to auction about $3 billion of March tax anticipation bills early in July. It was reported at this meeting, however, that Federal spending currently was running below earlier estimates and that the Treasury cash balance was likely to build up to higher-than-expected levels by midyear, with the result that the Treasury's needs for new cash in July might be smaller than had been expected. In these circumstances, the Treasury was considering alternative financing operations designed to achieve some lengthening of the average maturity of the debt.

The deficit in the U.S. balance of payments in May, according to preliminary figures, was smaller than in April but larger than the monthly average in the first quarter. It was now estimated that, despite the sharp first-quarter improvement, the payments

deficit for the first 5 months of the year was at a seasonally adjusted annual rate of about $2 billion, somewhat higher than the revised figure for the second half of 1963. However, confidence in the dollar abroad was reported to have strengthened considerably in recent months.

The Committee consensus was that no change should be made in policy at this time. In reaching this conclusion the Committee noted the likelihood that the Treasury soon would be engaged in a financing operation. But entirely apart from that factor most members felt that current policy remained appropriate on both domestic and international grounds. The domestic advance was proceeding in a satisfactory fashion and balance of payments developments, although not as favorable recently as they had been earlier, did not yet appear to call for any policy modification.

Within this consensus, there were several shadings of view. Some concern was expressed about the possibility that inflationary pressures might develop domestically and about the implications for the payments balance of rising interest rates in Europe, as well as recent increases in foreign security issues in this country and declines in the U.S. trade surplus. While no members advocated an overt policy move, some indicated a preference for resolving doubts on the side of less ease, and noted the desirability of slightly higher domestic interest rate levels, such as might be brought about by rising demands for credit. Certain other members thought that if the balance of payments problem persisted it would be better dealt with by means of selective measures rather than by general monetary restraints that might possibly have unfavorable effects on domestic activity. Some members, who were concerned about the reduced rates of growth in bank credit and the money supply thus far in 1964 and about the evidences of lower bank liquidity, favored a somewhat greater monetary expansion.

At the conclusion of the discussion, the Committee issued the following current economic policy directive to the Federal Reserve Bank of New York:

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.

Mr. Mills dissented from the Committee's decision for no change in policy and from the action on the directive because he believed that the implementation of policy since the preceding meeting had imposed contractive pressures on the expansion of commercial bank credit, at the expense of throttling down economic activity in the absence of inflationary pressures that might call for such action. He thought that corrective action should be taken promptly to supply the banking system with reserves more freely.

July 7, 1964

Authority to effect transactions in System Account.

Some of the latest data available at the time of this meeting suggested a moderate slowing from the recent rapid pace of

domestic business expansion. However, prospects appeared good for further orderly progress, and consumer and business behavior in general was characterized by optimism.

It was noted that there had been sizable adjustments over the past 12 months within the broad framework of over-all economic expansion. Thus, the dollar rise in private and State and local government spending had more than compensated for a leveling off in Federal outlays; and within the private sector, increasing consumer outlays for goods—initially for durables but later for nondurables—had more than offset a recent modest decline in new housing activity. Throughout the period business fixed capital outlays had continued to expand steadily and by sizable amounts, but the rate of inventory accumulation thus far in 1964 was lower than in the latter part of 1963.

In June the unemployment rate rose to 5.3 per cent from 5.1 per cent in May as employment increased less than seasonally, and on the basis of preliminary data retail sales appeared to have dipped slightly from their May peak. Late in June prices of foodstuffs rose slightly but industrial commodity prices continued stable, and average wholesale prices remained at about the level that had prevailed for 6 years. Prospective supplies of most commodities appeared ample to permit further gains in activity without straining resource availability.

A substantial increase in the money supply in June brought its annual rate of expansion for the first half of the year up to 3.1 per cent, compared with a rate of 2 per cent in the first 5 months and a 3.7 per cent increase for the full year 1963. Free reserves, which had declined in early June, rose in subsequent weeks to levels around $125 million.

In the securities markets, prices of common stocks had recovered their declines of May and early June and moved to new record highs. Yields on new corporate bonds and on all maturities of Treasury securities had drifted downward. The Treasury's cash balance at the end of the fiscal year was estimated at the high level of $10.2 billion, and it was reported that the Treasury planned to announce a major advance refunding on the day following this meeting.

The U.S. balance of payments deficit for the second quarter was tentatively estimated at a seasonally adjusted annual rate in the neighborhood of $3 billion, much larger than the first-quarter rate of $0.7 billion. The high month of the second quarter was April, however, and after that the monthly deficits were significantly smaller, although still above the first-quarter rate. A decline in the trade surplus from the unusually high first-quarter rate probably accounted for about half of the increase in the deficit. In early July both Belgium and Switzerland increased their discount rates by one-half of a percentage point.

The Committee concluded that its policy should be continued unchanged for the next 3 weeks. The expected Treasury financing was an important factor in this decision, but most Committee members felt that recent domestic and international developments did not call for a policy change at present in any case. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

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 continued orderly expansion in economic activity, accompanied recently by a more rapid expansion in money supply and some decline in interest rates. It also gives consideration to the relative stability in average commodity prices; the underutilization of manpower and other resources; the country's less favorable international payments position in the second quarter; and the further interest rate advances 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, Balderston, Daane, Hickman, Mills, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against action: None.

July 28, 1964

Authority to effect transactions in System Account.

Economic activity was continuing to advance, although in some areas expansive tendencies appeared somewhat less strong than earlier in the year. Pressure on resources remained moderate, and industrial prices continued stable.

GNP in the second quarter was estimated at an annual rate of $618.5 billion, about $10 billion above the first quarter. Industrial production rose further in June and was about 4 per cent higher than 6 months earlier. Retail sales in June equaled their record May level and apparently increased moderately further in the first half of July. However, total consumption expenditures increased less in the second quarter as a whole than in the first quarter, despite the tax cut, and personal saving rose sharply. Nonfarm employment rose further in June, but the rate of increase had shown signs of moderating in recent months, and the unemployment rate continued to exceed 5 per cent. Although housing starts rose slightly in June, on balance they had been tending downward since the autumn of 1963. Business inventory policies continued cautious; the rate of inventory accumulation in the second quarter was little larger than the modest first-quarter rate, and inventory–sales ratios remained low.

Both bank credit and the money supply recorded substantial increases in June. Rapid growth in the money supply continued in the first half of July, raising the annual rate of increase for the year to date to over 4 per cent. Time and savings deposits continued to expand at about the average rate of earlier months this year.

Conditions in financial markets generally were affected relatively little by the Treasury's recently completed advance refunding, in which about $9¼ billion of securities maturing within 3 years were exchanged for longer-term issues. Yields on long-term Government bonds increased slightly, but corporate and municipal bond yields showed little change. This relatively small reaction was attributed to continuing large flows of long-term savings and to investor confidence in current levels of interest rates. The downdrift in Treasury bill rates that was evident earlier continued during the exchange period, but it halted, at least temporarily, after a sale of a $1 billion bill strip by the Treasury. It was reported that the Treasury planned to redeem the remaining issues maturing on August 15 with the proceeds of additional short-term financing.

The balance of payments deficit for the second quarter was somewhat lower than estimated earlier, but tentative figures for the first 3 weeks of July showed an increase much larger than expected on seasonal grounds. Supporting detail was not yet available to indicate the categories of the payments accounts in which the increase had occurred.

It was the consensus of the Committee that domestic and international developments, on balance, did not require a change in policy. Recent and prospective Treasury financing activity also militated against a policy change. Some members thought that it would be desirable to maintain as firm a short-term interest rate structure as possible within the context of a generally unchanged policy, in light of the continuing balance of payments problem and particularly in view of an apparent deterioration in the U.S. payments balance in recent weeks. Other members thought such a course was unjustified because the data reflecting recent worsening were highly tentative; the causes of the deterioration were not yet clear; and domestic circumstances in their judgment called for continuing the existing degree of monetary ease. It was agreed, however, that the balance of payments problem warranted continuing close attention by the Committee.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

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 continued orderly expansion in economic activity, accompanied recently by a more rapid expansion in money supply and little over-all change in interest rates. It also gives consideration to the relative stability in average commodity prices; the underutilization of manpower and other resources; the apparent deterioration in the international payments balance in the first weeks of July; and the interest rate advances in recent months in important markets abroad.

To implement this policy, and taking into account 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, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. *Votes against this action:* None.

August 18, 1964

Authority to effect transactions in System Account.

In July, according to reports at this meeting, domestic business activity continued to expand in an orderly fashion. The industrial production index recorded a substantial further gain as output of materials, business equipment, and consumer goods all increased. Retail sales, which had declined in June according to revised figures, renewed their earlier rise and exceeded the May peak. The unemployment rate declined appreciably to 4.9 per cent—moving below the 5 per cent level for the first time since early 1960—as a result of both a rise in employment and some further withdrawals from the labor force.

Price indexes for some sensitive industrial materials such as nonferrous metals and steel scrap, which had been rising in July, moved up further in early August, partly in reaction to the military incident in Southeast Asia and the renewed fighting on Cyprus. Such price changes, together with discussion of possible advances in steel prices and speculation about the outcome of current wage negotiations in the auto industry, had led to some revival of press comments suggesting the possibility of inflationary developments. However, the broad wholesale index in July continued to show little change and was at about the same level as a year earlier. Wage rate advances remained moderate, and unit labor costs in manufacturing appeared to have changed little thus far in 1964.

The money supply grew at an annual rate of 8.5 per cent in July, as it had in June, following a lower average rate of increase earlier in the year. While total bank credit declined in July, mainly because banks drew down their Government securities holdings substantially and reduced their loans to securities brokers and dealers and to finance companies, it rebounded sharply at weekly reporting banks in early August, as both loans and investments increased. Free reserves at member banks averaged about $130 million in July, but then declined to about $90 million in the first 2 weeks of August as bank borrowings rose above recent average levels.

In capital markets, the securities issued in the Treasury's July advance refunding and August refinancing were still in the process of absorption. Yields on Government and corporate bonds had changed little in recent weeks despite uncertainties created by events in the Far East and in the Mediterranean. Yields on Treasury bills returned to about 3.50 per cent in mid-August, after dropping as low as 3.42 per cent in July.

The deficit in the U.S. balance of payments was substantial in July, and, according to tentative data, also in the first half of

August. The deficit in the second quarter now was estimated at a seasonally adjusted annual rate of nearly $3 billion, compared with $900 million in the first quarter. The trade surplus declined by about $1 billion (annual rate) from the first to the second quarter, and domestic issues of foreign securities rose. Long-term bank lending to foreigners declined in the second quarter, but the outflow of short-term bank credit and liquid funds remained at near-record levels.

The Committee decided to modify its policy objectives at this time in the direction of slightly firmer money market conditions, including moderately lower free reserves and moderately higher short-term interest rates. It was agreed that this modest policy shift should be implemented cautiously. Some members favored this action primarily for balance of payments reasons, with the object of reducing outflows of funds attracted by the differentials of foreign over domestic short-term interest rates. In the judgment of these members the domestic business expansion was sufficiently vigorous to permit such a policy change. Other members thought that somewhat less ease in the money market, and a lower rate of monetary growth than that experienced in June and July, were also desirable on domestic grounds.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

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 continued orderly expansion in economic activity, and essential stability in interest rates, unit labor costs, and commodity price averages, including the moderate reactions in markets generally to military incidents in the Far East and Mediterranean. It also gives consideration to the recent improvement in rates of unemployment and industrial capacity utilization, the substantial increases in the money supply in June and July, and the large U.S. balance of payments deficit in July.

To implement this policy, System open market operations shall be conducted with a view to maintaining slightly firmer conditions in the money market, while accommodating moderate expansion in aggregate bank reserves.

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

In the opinion of the members dissenting from this action, a firmer policy was not called for at present by domestic conditions. Moreover, they believed that, with the market already somewhat tighter, even a slight policy shift might affect interest rate expectations and trigger market reactions leading to much firmer conditions than intended. This risk was considered particularly great at present because of the relatively low level of liquidity in the banking system. While sharing the concern of the majority with regard to balance of payments developments in July and early August following the deterioration in the second quarter, the dissenting members did not believe that these developments warranted the risk they saw in the action taken. In advancing their reasons for this judgment, individual members of the dissenting group noted the uncertainty as to whether the deficits since midyear constituted a trend, and the lack of information on the role of capital outflows in these deficits. Some expressed doubt that a slight shift in policy of the sort envisaged would have a significant impact on capital outflows, and some indicated that they believed means other than general monetary policy were preferable for coping with the balance of payments problem under prevailing domestic conditions.

September 8, 1964

Authority to effect transactions in System Account.

Available data for August indicated that domestic business activity was continuing to expand in an atmosphere of confidence but not ebullience. From weekly reports it appeared that

retail sales had increased further in August. Industrial production probably was at least maintained and may have risen further. Nonfarm employment remained strong, totaling about 1.6 million higher than a year earlier, although the unemployment rate moved back up to 5.1 per cent from 4.9 per cent in July.

Manufacturers' inventories continued to increase at a slow pace in July, and stock–sales ratios declined appreciably to a new low for the recent period. Wholesale prices of industrial materials remained stable on the average in August, although prices of some nonferrous metals rose further.

Surveys of consumer and business spending plans suggested continued strong demands in the period immediately ahead. In the July Census Bureau survey of consumer buying intentions, plans to buy new cars and household durable goods were reported more frequently than a year earlier, while plans to buy used cars and houses were somewhat less numerous. The August Commerce–SEC survey of business capital spending plans indicated some further upward revision in anticipated outlays for the year. Capital spending in 1964 was now projected at a level 12.7 per cent above 1963, compared with a rise of 12.0 per cent indicated in the May survey and 10.1 per cent in the February survey.

Bank credit rose sharply in August after declining moderately in July. The movements in both months reflected in part changes in bank holdings of Government securities related to Treasury financing operations. The money supply increased at a considerably slower rate than it had in the two preceding months. Free reserves averaged about $110 million in August, and for the most recent statement week, the one ending September 2, they were estimated to have declined to $44 million. Member bank borrowings in August averaged $310 million, the highest level since March.

The interest rate on 3-month Treasury bills in recent weeks continued at around the 3.50 per cent level. However, market rates on bills maturing in December were depressed relative to rates on surrounding maturities because of their special attraction to investors expecting to make tax and dividend payments in that month and having particular liquidity needs in the closing weeks of the year. Bond markets displayed a more hesitant and cautious tone, and yields rose somewhat. Among the contributing factors were heavy inventory positions of dealers in Government securities and municipal issues and the build-up in the September calendar of new corporate and municipal public offerings from the seasonally low level of the summer. The rise in Treasury bond yields was modest partly because substantial Federal Reserve and other official buying had helped to relieve the overhang of supply in the market, but recent new issues of corporate bonds were priced to yield about 10 basis points more than they had a month earlier.

On the basis of preliminary data for August, the deficit in the U.S. balance of payments for July and August combined appeared to be running appreciably above the $3 billion annual rate of the second quarter. However, capital outflows moderated in July; short-term claims on foreigners reported by banks declined, partly offsetting a large rise in June, and outflows on long-term bank loans continued modest.

The Committee concluded that the policy decision taken at the previous meeting should not be altered in the light of the information on domestic and balance of payments developments that had become available in the interim. Accordingly, it was agreed that operations should continue to be directed toward maintaining the slightly firmer conditions in the money market that had prevailed in recent weeks. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

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 continued orderly expansion in economic activity, some slackening in the rate of money supply expansion in recent weeks, and relative stability in broad commodity price averages. It also gives consideration to indications that the deficit in the U.S. balance of payments was appreciably larger in July and August than in the preceding quarter.

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

Votes for this action: Messrs. Balderston, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, Wayne, and Treiber. Votes against this action: None.

September 29, 1964

Authority to effect transactions in System Account.

The industrial production index advanced nearly one point further in August, and early indications were that it would show another rise in September. Nonfarm employment increased only slightly in August as temporary layoffs due to auto model changeovers reduced manufacturing employment. Retail sales in the third quarter were running about 2 per cent above the second-quarter level, and it appeared that the unusually high rate of personal saving of the period immediately following the March income tax cut had slackened. While the increase in business inventories thus far in 1964 was considerably less than had been indicated by prior surveys of business anticipations, more recent surveys suggested a higher rate of inventory accumulation in the months ahead.

Not all recent economic indicators were expansive. Private housing starts had been declining irregularly since late 1963, and in the June-August period they averaged one-eighth below the peak levels of last fall. New orders for manufacturers' durable goods dropped sharply in August, mainly because of a decline in defense orders, although they still were at a high level.

Average wholesale prices of industrial commodities continued stable, as increases for nonferrous metals and some other products were about offset by decreases elsewhere. New 3-year labor contracts entered into by two major automobile companies involved settlements above the administration's recommended wage guideposts, but whether these settlements posed a significant threat to continued over-all price stability was uncertain. It appeared that much would depend on the extent to which the terms of these contracts influenced settlements in other industries, and on the effects that they might have on price expectations and incentives for speculative inventory accumulation.

Bank credit rose substantially further in early September following a large increase in August. Credit extensions to finance corporate tax and dividend payments accounted for a significant part of the September increase. Advance estimates suggested that the money supply rose more in September than in August, and perhaps as much as in June and July when the increase was at an annual rate of 8.5 per cent. Growth in time and savings deposits in September was about in line with the average for the year to date, as gains in savings deposits were partly offset by the mid-September reduction in negotiable time certificates of deposit outstanding.

Member bank borrowings rose somewhat further, averaging $370 million in the 4 weeks ended September 23, as compared with $310 million in the preceding 4 weeks. Excess reserves also rose, but less than borrowings, and free reserves declined a little to an average of $80 million.

Conditions in the money market had firmed somewhat in recent weeks, and the interest rate on 3-month Treasury bills had advanced several basis points to 3.54 per cent. Bond yields continued to rise in early September, but after the middle of the month yields on Treasury bonds moved down; and somewhat later, yields on new corporate issues also declined. Dealer inventories of Treasury bonds had been reduced substantially from earlier levels.

More complete statistics on the U.S. balance of payments in August and tentative data for September indicated that the deficit in both months was below the high total for July. These data also suggested that for the third quarter as a whole the deficit might be somewhat less than that for the second quarter, which was now estimated at an annual rate of $2.7 billion. There was no evidence at present of net outflows of short-term capital in the third quarter, but outflows of long-term private capital apparently were appreciably higher than earlier in the year.

It was the consensus of the Committee that the slightly firmer money market conditions maintained under the directives issued at the two preceding meetings remained appropriate. Some members expressed concern about the possibilities for inflationary developments that they saw in the auto wage settlements and in the recent rapid growth rates in bank credit and the money supply, and about the continuing large deficit in the U.S. balance of payments. Another possible source of imbalance noted was the reported acceleration in demand for steel products resulting from fears of a work stoppage in that industry next spring. While no members favored a substantial change in policy, there was some sentiment for a further slight shading of market conditions in the direction of firmness, or at least for resolving any doubts that arose in implementing policy on the side of firmness rather than ease. The majority did not favor such a course, on the grounds that it was not warranted by price developments to date and that even a slight further lessening of ease in the money market might, under present circumstances, have large undesired effects on security prices and credit terms.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

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 continued orderly expansion in economic activity, relative stability in broad commodity price averages, and indications that the money supply is expanding rapidly again after some slackening in August and early September. It also gives consideration to current estimates that the deficit in the U.S. balance of payments in the third quarter continued at a high rate, although possibly not as high as in the preceding quarter.

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

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Swan, Wayne, and Bryan. Votes against this action: None.

October 20, 1964

1. Authority to effect transactions in System Account.

Underlying domestic economic conditions apparently continued strong in recent weeks, although new uncertainties were introduced by recent political developments abroad and aggregate measures of domestic activity were being dampened by a work stoppage at a major automobile company, now in its fourth week. The industrial production index increased slightly in September despite a decline in automobile output. Weekly retail trade reports indicated little change in nondurable goods sales from the advanced August-September level, although durable goods volume declined in reflection of the shortage of new cars. Employment in nonfarm establishments rose further in September, but the unemployment rate, at 5.2 per cent, was little changed

from August. Wholesale industrial prices remained broadly stable into early October, except for further marked increases in nonferrous metals prices.

Gross national product was estimated to have advanced at an annual rate of $9 billion in the third quarter, to a level 6.9 per cent above a year earlier in current dollars and 4.8 per cent higher in real terms. Consumption expenditures rose more than disposable income in the quarter, and business outlays for fixed capital continued to expand vigorously. On the other hand, residential construction expenditures declined somewhat, and businesses accumulated inventories at an estimated annual rate of only $1.7 billion, $2 billion below the second quarter's moderate rate.

Total bank credit increased substantially again in September, with the rise concentrated in the first half of the month. Both loans and investments declined in early October. Growth in the money supply in September, and in the third quarter as a whole, was at an annual rate of about 6 per cent—twice the rate prevailing in the first half of the year. According to preliminary indications the money supply rose substantially further in the first half of October.

Free reserves of member banks continued to average about $80 million in the 3 weeks ending October 7. In the following week, however, they rose to an estimated $186 million, chiefly because the level of float over the Columbus Day holiday weekend was substantially higher than expected.

In security markets, yields on 3-month Treasury bills increased several basis points further to 3.59 per cent. Long-term markets were characterized by a cautious tone, and yields on long-term Treasury securities edged up after late September. Yields on new issues of corporate bonds declined in recent weeks as the calendar of forthcoming offerings contracted, but even in this market investor caution was suggested by a build-up in dealer inventories of unsold bonds. It was reported that the Treasury soon would announce the terms of its November refunding, which was expected to be a routine offering confined to the short-term area. At mid-October, prices of common stocks were at record levels.

Preliminary figures for the U.S. balance of payments in September showed a small over-all deficit for the month. The third-quarter deficit was estimated at an annual rate of about $2¼ billion, somewhat below the estimate for the preceding quarter. U.S. exports declined slightly in August, but the July-August trade surplus was little changed from the second quarter's $6 billion annual rate.

The Committee agreed that no change should be made in policy at this time in view of the forthcoming Treasury financing operation and of the uncertainties and unsettlements resulting from recent international political developments. In addition, some members thought a change in policy was not warranted at present either by domestic economic conditions or by balance of payments developments. Other members, however, believed that recent growth rates in bank credit and the money supply could not be sustained for long without increasing the inflationary dangers they thought already were incipient domestically. Serious concern also was expressed over the continuing sizable deficit in the U.S. balance of payments.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

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 further expansion in economic activity, tempered by a work stoppage at a major automobile company; relative stability in broad commodity price averages, even though additional price increases have occurred in some materials markets; and indications that the vigorous money supply expansion of recent months continued in the first half of October. It also gives consideration to current estimates that the deficit in the U.S. balance of payments in the third quarter continued at a high rate, although not quite as high as in the preceding quarter.

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

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Ellis. Votes against this action: None.

2. Authority to purchase and sell foreign currencies.

On several occasions since the spring of 1961 the Federal Reserve Bank of New York, acting for the account of the U.S. Treasury, had undertaken forward sales of selected foreign currencies for the purpose of reducing unduly high forward premiums on the foreign currency arising, for example, from market speculation based on expectations of a possible revaluation of that foreign currency. These operations had been successful in lessening pressures on the dollar and the U.S. gold stock.

At this meeting the Committee approved a recommendation of the Special Manager of the System Account that the Federal Reserve Bank of New York be authorized to conduct similar operations for System Account, within certain dollar limits, so that the System and the U.S. Treasury would be able to act in concert in the event a need for such operations should arise in the future. Specifically, it was agreed that the guidelines for foreign currency operations, as reaffirmed at the meeting of March 3, 1964, should be amended by deleting the second paragraph of Section 1 (cited below), and that the continuing authority directive for transactions in foreign currencies should be amended in two respects: to add a subparagraph (d) to the second paragraph authorizing forward transactions for the purpose indicated, and to revise the combined dollar limit for forward transactions for all authorized purposes from the figure of $150 million that currently applied to forward transactions for the three purposes already authorized to a figure of $200 million to cover the additional purpose for which forward transactions would be authorized as well.

At the same time, it was decided to make two further revisions in the continuing authority directive for foreign currency transactions. One revision consisted of the insertion of the word "concurrent" before the word "sales" in subparagraph (c) of the second paragraph, to clarify the distinction between the type of operation contemplated by this subparagraph and that contemplated by the new subparagraph (d). The other revision involved a change, from $2.05 billion to $2.1 billion, in the dollar limit specified in the first paragraph of the directive on the aggregate amount of foreign currencies held under reciprocal currency arrangements. It had been the Committee's practice to set this limit at the sum of the amounts currently specified by the Committee for all individual authorized reciprocal currency arrangements, which represented the maximum of System covered holdings of foreign currencies under these arrangements in the remote possibility that they might all simultaneously be fully drawn on. This revision was made because earlier in the present meeting the Committee had approved an increase in the size of the reciprocal currency arrangement with the National Bank of Belgium from $50 million to $100 million.

In accordance with these decisions, the guidelines for System foreign currency operations were amended by deletion of the following paragraph from Section 1:

Holdings of a currency shall generally be kept sufficient to meet forward contracts in that currency (exclusive of contracts made under

parallel arrangements with foreign monetary authorities which provide their own cover) expected to mature in the following 3-week period.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Ellis. Votes against this action: None.

Also in accordance with these decisions, the following continuing authority directive for transactions in foreign currencies was issued to the Federal Reserve Bank of New York:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations reaffirmed by the Federal Open Market Committee on March 3, 1964, as amended October 20, 1964; provided that the aggregate amount of foreign currencies held under reciprocal currency arrangements shall not exceed $2.1 billion equivalent at any one time, and provided further that the aggregate amount of foreign currencies held as a result of outright purchases shall not exceed $150 million equivalent at any one time:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs
Belgian francs
Canadian dollars
Austrian schillings
Swedish kronor
Japanese yen

The Federal Reserve Bank of New York is also authorized and directed to operate in any or all of the foregoing currencies in accordance with the Guidelines and up to a combined total of $200 million equivalent, by means of:

(a) purchases through forward transactions, for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements;

(b) purchases and sales through forward as well as spot transactions, for the purpose of utilizing its holdings of one currency for the settlement of commitments denominated in other currencies;

(c) purchases through spot transactions and concurrent sales through forward transactions, for the purpose of restraining short-term outflows of funds induced by arbitrage considerations; and

(d) sales through forward transactions, for the purpose of influencing interest arbitrage flows of funds and of minimizing speculative disturbances.

The Federal Reserve Bank of New York is also authorized and directed to make purchases through spot transactions, including purchases from the U.S. Stabilization Fund, and concurrent sales through forward transactions to the U.S. Stabilization Fund, of any of the foregoing currencies in which the U.S. Treasury has outstanding indebtedness, in accordance with the Guidelines and up to a total of $100 million equivalent. Purchases may be at rates above par, and both purchases and sales are to be made at the same rates.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Ellis. Votes against this action: None.

November 10, 1964

1. Authority to effect transactions in System Account.

Underlying domestic economic conditions appeared to have remained favorable in October despite work stoppages in the

automobile industry. Industrial production and retail sales apparently continued strong apart from the effects of interruptions in auto output, and over-all commodity price averages remained relatively stable. The unemployment rate was unchanged at 5.2 per cent.

Although declines in output in the auto and closely related industries were estimated to have reduced the index of industrial production for October by 2-3 percentage points, activity in other industries probably was maintained or increased further. New car sales were down sharply on a seasonally adjusted basis in October, but sales at furniture and appliance stores and at outlets for nondurable goods were up. Total construction activity edged down further in October, as residential building remained appreciably below the highs reached in the fall of 1963.

Strong upward pressures on wholesale prices were still limited to nonferrous metals. However, selective increases continued to be announced for other commodities, and recent weekly estimates showed a small increase in the average for industrial commodities. The consumer price index rose further in September at the slow pace of recent years.

Results of a private survey of business plant and equipment spending plans, taken in October, indicated that the level of such outlays planned for 1965 was about 5 per cent above the estimated 1964 total and little changed from the rate indicated for the final quarter of 1964 by the August Commerce–SEC survey. The increase in capital spending from 1963 to 1964 was estimated at about 14 per cent on the basis of returns in the private survey. While it was noted that actual outlays in years of business expansion often were larger than those reported as planned in the preceding autumn, these survey results still suggested some possible slowing from the recent growth rate in capital outlays.

Bank credit, after expanding sharply in September, was down moderately by the end of October according to preliminary estimates, perhaps partly because of the effects of the auto industry work stoppages. The money supply, which had grown at an annual rate of about 6 per cent in the third quarter, rose at a 4.6 per cent rate in October, increasing sharply in the first half of the month but then declining in the second half. Commercial bank time and savings deposits rose more than in other recent months. Free reserves at member banks averaged about $90 million, little changed from the September level.

The money market was firm during most of October and early November, although varying conditions in different segments of the market contributed to a slightly easier tone from time to time, notably after the Columbus Day holiday. Bond markets turned stronger in recent weeks as a result of somewhat reduced demands for outside financing, a continuing large flow of savings, and growing investor confidence in current interest rate levels, and at the end of October yields on long-term Government bonds were close to their lowest levels since early August. The Treasury currently was engaged in a $9¼ billion cash offering of new 18-month notes, most of the proceeds of which would be used to redeem securities maturing on November 15.

Preliminary data suggested that the U.S. balance of payments deficit for October, after allowance for seasonal factors, continued at about the same annual rate as in the third quarter, now estimated at $2.3 billion. The trade surplus rose in September mainly because of higher exports in anticipation of a possible port strike. The United Kingdom recently had instituted measures designed to reduce a large deficit in its balance of payments, including a temporary 15 per cent surcharge on imports of manufactured goods, but not including an increase in the discount rate of the Bank of England.

The Committee agreed that no change should be made in monetary policy at this time, although a number of members thought there were some grounds for seeking slightly firmer conditions in the money market and a reduction in the growth rates of bank credit and the money supply from those prevailing during

recent months. Some of these members expressed the view that firmer money market conditions and less easy credit availability would be helpful in limiting private capital outflows from the United States. Others emphasized domestic considerations, indicating that they believed recent money and credit growth rates were offering an undesirable degree of encouragement to latent inflationary pressures. Most members in this group concluded, however, that other considerations militated against a change in policy at this meeting, including the fact that the current Treasury financing was still in process.

Other members thought that no change in policy was warranted at present even apart from the Treasury financing. Among the reasons advanced by individual members who held this view were that the U.S. balance of payments position had not been deteriorating recently, that commodity prices continued stable on average, and that the case for firmer money market conditions based on domestic considerations was, on the whole, weaker at present than it had been earlier in the fall. Some of these members also believed that even a slight shift in policy now might set off market reactions that would culminate in a need to raise the Federal Reserve discount rate, an action that they considered undesirable at present both on domestic grounds and in view of the balance of payments problems of the United Kingdom.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

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 apparent underlying strength in current economic conditions, apart from the effects of work stoppages in the automobile industry; indications that the rate of increase in business capital spending may moderate in the coming year; relative stability in broad commodity price averages, even though additional price increases have occurred in some materials markets; and the recent reduction in bank credit and monetary expansion from the high rates of summer. It also gives consideration to the persistence of a sizable deficit in the U.S. balance of payments.

To implement this policy, and taking into account the current Treasury financing, 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, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Vote against this action: Mr. Hayes.

Mr. Hayes favored undertaking operations designed to encourage somewhat firmer money market conditions immediately after the current Treasury financing was completed. He thought the situation posed by the persistence of a balance of payments deficit at the current rate was sufficiently serious to outweigh other considerations that might argue against a change in policy at this meeting. In his judgment the domestic economy was fully strong enough to withstand a moderate policy change without damage. Moreover, he saw merit in a slight policy change from the domestic standpoint, in light of his views that bank credit had grown at a rapid rate thus far in 1964 and that a threat of inflationary developments existed at present. Accordingly, he dissented from this action.

2. Amendment of continuing authority directive.

On the recommendation of the Account Manager, Section 1(b) of the continuing authority directive to the Federal Reserve Bank of New York was amended to raise the dollar limit on

System Open Market Account holdings of bankers' acceptances from $75 million to $125 million. The concurrent percentage limit on holdings, of 10 per cent of the total of bankers' acceptances outstanding, was left unchanged. With this amendment, Section 1(b) read as follows:

To buy or sell prime bankers' acceptances of the kinds designated in the Regulation of the Federal Open Market Committee in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed $125 million or 10 per cent of the total of bankers' acceptances outstanding as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York.

Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against this action: None.

In 1958, when the $75 million limit on System Account holdings of bankers' acceptances had been established, the dollar volume of acceptances outstanding in the market was less than half of its current level. The increase in the dollar limit to $125 million was considered appropriate in view of the substantial growth in the market since that time.

November 24, 1964

Authority to purchase and sell foreign currencies.

On the day preceding this meeting, which was held by telephone, the Bank of England had raised its discount rate from 5 to 7 per cent in another of a series of actions taken in response to heavy pressure on sterling in foreign exchange markets.[1] At this meeting the Special Manager of the System Account reported that pressure on sterling had abated for only a brief period following this action, and had subsequently been renewed in force. He indicated that a number of central banks were consulting regarding the possibility of developing a broad package of financial assistance to Britain, designed to reinforce that country's efforts to defend sterling. On recommendation of the Special Manager, the Committee authorized an increase in the reciprocal currency (swap) arrangement with the Bank of England from $500 million to $750 million, subject to the agreement of the Bank of England and to the satisfactory development of a broad package of credits to Britain.

Concurrently, the Committee raised the dollar limit specified in the first paragraph of the continuing authority directive for foreign currency transactions on the aggregate amount of foreign currencies held under reciprocal currency arrangements by $250 million to $2.35 billion.

> Votes for this action: Messrs. Martin, Hayes, Balderston, Daane, Hickman, Mills, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against this action: None.

December 1, 1964

Authority to effect transactions in System Account.

Domestic financial markets had reacted in a moderate and orderly fashion to the preceding week's official actions, which

[1] As indicated in the entry for Nov. 23, 1964, in the preceding Record of Policy Actions of the Board of Governors, on the same date the Board approved increases in Federal Reserve discount rates from 3½ to 4 per cent and amended the Supplement to Regulation Q to raise maximum permissible interest rates on time and savings deposits of member banks.

followed the sterling crisis. These actions included successive increases in discount rates by the Bank of England, the Federal Reserve Banks, and the Bank of Canada; an increase in the maximum interest rates permitted on time and savings deposits of member banks under the Federal Reserve Board's Regulation Q; and announcement of a $3 billion package of short-term credits to Britain by 11 countries, including the United States, and the Bank for International Settlements.

Interest rates, particularly on short-term instruments, adjusted upward promptly in response to the official rate actions. Yields on 3-month Treasury bills advanced about 25 basis points to about 3.85 per cent, and Federal funds frequently traded at the new Federal Reserve discount rate of 4 per cent. The rise in bond yields, however, was quite modest; yields on long-term Treasury issues advanced about 5 basis points on the average, and those on outstanding corporate and municipal bonds appeared to have adjusted to about the same extent. Common stock prices dropped only slightly on somewhat heavier trading volume, and neither spot nor futures markets for sensitive commodities showed unusual changes in price quotations or activity. A number of commercial banks raised rates offered on time and savings deposits, but announcements of increases in prime lending rates by a few banks (all outside New York) were not followed immediately by others.

From reports at this meeting it appeared that the domestic business situation had remained strong in recent weeks, although current measures of activity continued to reflect the effects of recent and threatened work stoppages. Retail sales declined by about 3 per cent in October and somewhat further in early November, both because of a shortage of new cars resulting from the recent auto industry strikes and because of unseasonably warm weather. Industrial production was estimated to have returned in November to about the September level as auto output was partly restored and as production in other industries continued to increase. Manufacturers' inventories rose by $550 million in October, more than in any other month thus far in 1964. However, this development also probably was related in part to work stoppages; automobile manufacturers accumulated stocks of materials and parts during the auto strikes and steel users increased inventories against the possibility of a strike in that industry next spring.

Between mid-September and mid-October the index of industrial commodity prices increased by 0.4 per cent to a level above the narrow range within which it had fluctuated earlier this year. The rise was attributable to a recovery in prices of petroleum products, further advances for nonferrous metals, and scattered increases in other commodity groups. Few decreases were recorded other than slight further declines for lumber and plywood.

Bank credit, which had declined in October, rose substantially in November according to data for city banks, as business and financial loans increased and banks acquired sizable amounts of U.S. Government securities offered in Treasury financings. Most of the associated rise in deposits apparently occurred in Government and time deposits, and the money supply probably increased only slightly in November. In the August-October period, bank credit had grown at an annual rate of about 10 per cent, and the money supply at a rate slightly less than 5 per cent. Free reserves, the data for which were affected more sharply than usual by subsequent revisions, averaged about $10 million in November, compared with an average of about $90 million in the previous month.

Data on the U.S. balance of payments for October and tentative figures for early November suggested that the deficit in the fourth quarter would be somewhat higher than in the third, partly because of a substantial increase in new foreign security issues in the United States. It appeared that the large recent outflow of capital from Britain would not greatly affect the statistics for the U.S. payments deficit.

In the discussion of the appropriate monetary policy for the

next 2 weeks, it was noted that financial markets were still in process of adjustment to recent official actions and that these markets would be under strong seasonal pressures in the period ahead. It also was noted that the Federal Reserve rate actions had been directed primarily to the international payments situation, and that they had been intended to reduce the possibility of an outflow of volatile foreign dollar balances for confidence reasons. The Committee agreed that it was desirable at present to avoid a reduction in domestic credit availability and to moderate firming tendencies in the money market.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

> 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 fact that financial markets are currently in a period of adjustment in the wake of the recent sterling crisis and the discount rate advances and other responses in Britain, Canada, and the United States. The policy also takes into account the underlying strength of the domestic economy, obscured partially by the effects of recent and threatened work stoppages; the recent increase in average wholesale prices of industrial goods; and the continued expansion of bank credit and money. It also gives consideration to the persistence of a sizable deficit in the U.S. balance of payments.
>
> To implement this policy, and recognizing that a larger-than-usual degree of flexibility in operations will be needed in this period when financial markets, while under strong seasonal pressures, are still adjusting to official rate actions here and abroad, System open market operations over the next 2 weeks shall be conducted with a view to accommodating moderate expansion in aggregate bank reserves, while moderating adjustments of money market conditions to recent official actions.

Votes for this action: Messrs. Martin, Hayes, Balderston, Hickman, Mitchell, Robertson, Shepardson, Shuford, Swan, and Wayne. Votes against this action: None.

December 15, 1964

Authority to effect transactions in System Account.

Reports at this meeting indicated that domestic economic activity, after being dampened by work stoppages earlier in the fall, currently was being stimulated by efforts of auto producers to rebuild dealer inventories while satisfying accumulated demands and by attempts of steel users to increase stocks against the possibility of a steel strike next spring. It appeared likely that these influences would continue to encourage inventory investment in early 1965.

As the year drew to a close, the course of activity in most other sectors of the economy was showing little change from earlier months. Business and consumer confidence remained high; recent surveys indicated that both groups planned to increase spending in the months ahead. On balance, short-run prospects for continuing economic expansion appeared to be good if activity was not disrupted by major strikes.

With respect to the longer run, some members of the Committee noted that the temporary stimulus to activity of recent and threatened strikes might end at a time when other factors also were acting to dampen activity, including a shift in the position of the Federal budget from deficit to near-balance or surplus. This raised the possibility in their minds that the pace of activity might slacken in the coming year.

The unemployment rate declined slightly to 5.0 per cent in November but remained within the narrow 4.9-5.3 per cent range that had prevailed since May. Joblessness was heavily concentrated among the unskilled, particularly younger workers; the unemployment rate among married men was at its lowest level in 7 years, and shortages of some kinds of skilled labor were being reported. Further increases in employment could be expected with rising activity, particularly in trade and public and private services where gains had continued to be strong and

steady. But the labor force also was expected to grow rapidly because of a large increase in the number of young people seeking jobs. While recognizing that adequate credit was important to a dynamic and expanding economy, a number of members of the Committee indicated that they thought merely increasing over-all demand by expanding credit at this juncture would not solve the unemployment problem stemming from lack of education and training.

Weekly estimates suggested that average industrial commodity prices rose slightly further in November and early December, following a larger advance in October. Because of declines in prices of farm and food products, however, the average for all wholesale prices apparently remained stable. Upward pressures on prices of nonferrous metals had been maintained recently by high rates of activity in the United States and abroad and, in some cases, by political disturbances and strikes that limited production. The consumer price index continued its mild upward drift in October.

The rate of growth in total bank credit had fluctuated erratically in recent months partly because of the pattern of Treasury financing operations. November witnessed an exceptionally large expansion, with much of the unusual size of the increase attributable directly and indirectly to Treasury financings in that month. This brought the annual rate of growth of bank credit since midyear to about 8 per cent, the same rate as in the first half of 1964 and in the year 1963. Recent fluctuations in the growth rate of the money supply appeared to reflect mainly shifts between private and Government deposits and short-run adjustments by the public in its money balances. In the year to date the money supply had increased at a 4.2 per cent rate, compared with 3.8 per cent in 1963.

Member banks used part of the reserves supplied by System open market operations to reduce their borrowings from the Federal Reserve Banks in the wake of the late November increase in the discount rate. Although excess reserves also were reduced somewhat, free reserves rose substantially in the most recent statement week. Federal funds were readily available, frequently at rates below the discount rate.

Yields on 3-month Treasury bills declined about 10 basis points in the first week of December, but subsequently they returned to about 3.85 per cent, the level that had been reached shortly after the discount rate action, as seasonal pressures converged on the money market. These pressures were expected to reverse with the passage of the December tax and dividend dates and the holiday shopping season. Bond yields, which had risen slightly in an initial adjustment to the change in the discount rate, fell back to about earlier levels. The decline was attributable in part to expectations of continuing large flows of savings and little or no rise in long-term credit demands. It also reflected market responses to recent official statements concerning interest rates and credit availability, and to the cancellation by several commercial banks of increases in their prime rate announced earlier. While market yield relations were still expected to be subject to stresses of various sorts, the net effect to date of the adjustments to the discount rate action had been a further flattening of the yield curve in the shorter maturity range.

It was reported that the Treasury probably would raise new cash early in 1965 through additional bill sales. The possibility also was noted that an advance refunding operation would be undertaken in January if market conditions were considered favorable.

In foreign exchange markets, attention continued to be focused on developments in sterling. While that currency appeared to have weathered the recent crisis, the situation had not yet been fully stabilized, partly because of adverse seasonal pressures.

The precise magnitude of the U.S. balance of payments deficit in the fourth quarter was still in doubt but the deficit for 1964 as a whole seemed likely to be on the order of $2.5 billion, compared with $3.3 billion in the preceding year. Net outflows of

U.S. private capital rose substantially in 1964 to a new record level. The estimated reduction in the over-all deficit was attributable to a further marked increase in the trade surplus, as exports continued to expand rapidly while the growth in imports remained moderate. The gain in the trade surplus was due partly to vigorous economic expansion abroad and partly to the improved competitive position of U.S. goods in world markets as average prices continued to be relatively stable domestically but rose in many foreign countries.

A continuation in 1965 of favorable developments in U.S. foreign trade seemed possible, particularly if domestic prices remained stable. However, there were some factors that appeared unfavorable and that might slow or perhaps even reverse the recent trend. Among these were the restrictive actions—including surcharges levied on imports—that Britain had taken to alleviate its balance of payments difficulties; the possibility that the European Economic Community would reach decisions on farm policy that would reduce U.S. agricultural exports to its members; and the prospect of less buoyant expansion and slower price advances in some industrial countries. At the same time, U.S. imports might rise more briskly in coming months, particularly if inventory demands were strong. On the whole, it appeared to many Committee members that any substantial further improvement in the U.S. balance of payments position in 1965, in a context of continuing domestic expansion, would have to occur mainly in the area of capital flows.

The Committee concluded that no change in policy should be made at this time in view of the various uncertainties characterizing the domestic and international situations, the prospective reversal of seasonal pressures in the money market, and the possibility of a Treasury financing operation soon. It was agreed that for the time being open market operations should continue to be directed primarily at maintaining stable money market conditions, while permitting short-term interest rates to fluctuate within their recent range. Some members felt that a slighly lower range of bill rates would be appropriate if brought about by the expected abatement of seasonal pressures. Others, while agreeing with the majority that the balance of factors militated against a policy change now, expressed continued concern about the persisting sizable balance of payments deficit and about recent growth rates of bank credit and the money supply.

The following current economic policy directive was issued to the Federal Reserve Bank of New York:

In light of the economic and financial developments reviewed at this meeting, it remains the Federal Open Market Committee's current policy to facilitate continued expansion of the economy by accommodating moderate growth in the reserve base, bank credit, and the money supply, while seeking to avoid the emergence of inflationary pressures and to strengthen the international position of the dollar.

To implement this policy, and recognizing that international uncertainties and year-end seasonal pressures continue to require a larger than usual degree of flexibility in operations, System open market operations shall be conducted with a view to maintaining about the same conditions in the money market as currently prevail.

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

Mr. Mills dissented from this action on the grounds that current money market conditions were easier than he thought justified by immediate or prospective developments. He favored a somewhat more restrictive credit policy because of the possibility of massive inventory stockpiling, the further upward movement in prices of strategic industrial materials, and the evidences he saw of pervasive but latent inflationary pressures. In his judgment a modest tightening in the supply of reserves and in credit availability would still leave reasonable leeway for appropriate credit expansion without encouraging the commercial banking system to press unduly for a further increase in its holdings of loans and investments.

The following two reports describe the actions taken during 1964 to carry out the policies of the Federal Open Market Committee. The first one is a chronological review of operations in domestic securities. In providing the reserve base for rapid expansion in commercial bank credit and for substantial growth in the money supply—and in view of the public's changing preferences for currency, demand deposits, and time deposits—the Federal Reserve acquired during the year \$3.5 billion, net, of U.S. Government securities (including repurchase agreements).

The report on operations in domestic securities was prepared by Robert W. Stone, Manager of the System Open Market Account, who supervises these operations. It is written from the vantage point of the Trading Desk at the Federal Reserve Bank of New York, where operations in these securities are effected to carry out the policy directives of the Federal Open Market Committee. The report stresses the factors—including variations in reserve elements, money market tendencies, and Treasury financings—that the Manager takes into account in the day-to-day provision of bank reserves.

The second report is a review of Federal Reserve operations in foreign currencies. The Federal Reserve has been buying and selling such currencies since early 1962 as part of the efforts to defend the dollar and strengthen the world payments system. During 1964 the volume of Federal Reserve operations in foreign currencies was substantial, and the reciprocal currency, or "swap," network linking the Federal Reserve with foreign central banks and the Bank for International Settlements was enlarged by \$300 million.

During the year the Federal Open Market Committee authorized outright forward sales of foreign currencies. The reinforcement of the swap lines and the actual foreign exchange transactions exerted a strongly stabilizing influence on both gold and foreign exchange markets, which remained calm in the face of several potentially dangerous developments during the year.