RECORD OF POLICY ACTIONS
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 upon 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 is an entry with respect to the policy actions taken at each of the 17 meetings of the Federal Open Market Committee during the calendar year 1960, including the votes on the policy decisions as well as a resumé of the basis for the decisions, as reflected by the minutes of the Committee. It will be noted that in some cases the policy decisions were by unanimous vote, and that in other cases dissents were recorded. Further, as this record indicates, 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 Manager of the System Open Market Account attends the meetings of the Committee, and the shades of opinion expressed at those meetings provide him with guides to be used in the conduct of open market operations, within the framework of the policy directive adopted by the Committee.

The policy directive of the Federal Open Market Committee that was in effect at the beginning of 1960 had first been adopted in such form at the meeting on May 26, 1959, and had been continued in that form at succeeding meetings during the remainder of the calendar year. The last such meeting was held on December 15, 1959. The directive, which was 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, instructed that Bank:

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

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

January 12, 1960

Authority to effect transactions in System Account.

The Federal Open Market Committee continued without change the directive to the Federal Reserve Bank of New York, most recently renewed at the meeting on December 15, 1959, calling for operations with a view to restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities.

Votes for this action: Messrs. Martin, Hayes, Allen, Balderston, Deming, Erickson, Johns, King, Robertson, Shepardson, and Szymczak. Vote against this action: Mr. Mills.

Indicators of business activity were almost all moving upward at the time of this meeting. Settlement of the steel strike, accomplished several days earlier following operations under a Taft-Hartley Act injunction for approximately two months, removed a major element of uncertainty from the economic picture, although it left unresolved questions with respect to steel prices and also with respect to wage and price consequences in other industries. The Board's revised index of industrial production, at 156 per cent of the 1947-49 average in November 1959, was estimated to have risen to 163 or 164 in December and in January appeared almost certain to surpass the prestrike peak of 166. On a seasonally adjusted basis, construction activity, which had been lagging for several months, was up in December. Gross national product was estimated at an annual rate of $481 billion in the fourth quarter of 1959 and was expected to come close to an annual rate of $500 billion in the first quarter of 1960. Wholesale prices were substantially unchanged from year-ago levels.

Increases in interest rates and severe pressures on the money market during December were attributed in part to large credit demands to cover seasonal needs, in part to restoration of inventories run down by the steel strike, and in part to market expectations as to forthcoming developments. With a lessening of seasonal financing pressures, some slackening in deferred inventory demands, and tardiness in the pickup of new issue flotations in the capital markets, interest rates steadied or declined slightly after the turn of the year. Factors influencing the money market included prospective Treasury financing operations, the announcement by the President of an anticipated small budget surplus for fiscal 1960, and the prospect of a larger surplus for fiscal 1961.

The consensus that developed from the examination by the Committee of the business and financial situation favored no change in credit and monetary policy, which had been directed for several months toward restraint on credit expansion. There was some sentiment for a slight lessening in the degree of restraint within the framework of the existing policy on the grounds that some moderate growth in the country's money supply should be encouraged in order to support the anticipated business expansion and to avoid excessive upward pressures on interest rates. However, other members of the Committee felt that the general attitude was clearly one of extreme optimism, that this was likely to stimulate excesses in credit use, that it was incumbent upon the System to maintain a posture of firmness in limiting credit expansion at this stage of the business cycle, and that any lessening of the existing degree of restraint ran the risk of increasing inflationary pressures, with resulting accelerated expansion in the dollar volume of activity, followed by painful readjustments. One or two of those present leaned slightly in the direction of a firmer degree of restraint than had prevailed recently.

The Committee's decision to continue without change the existing policy directive calling for operations to restrain inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities was reached after considering these several shades of opinion. Mr. Mills, who voted against the directive, renewed a proposal that the wording be changed to provide for operations fostering sustainable economic growth and expanding employment opportunities while guarding against inflationary expansion. He expressed the belief that current conditions called for a policy of monetary restraint over the expansion of commercial bank credit, but he disagreed with the wording of the existing directive and its implementation to the extent that he did not think it allowed sufficient leeway for the volume of new credit that would foster an appropriate growth of the money supply.

January 26, 1960

Authority to effect transactions in System Account.

The Federal Reserve Bank of New York was directed by the Federal Open Market Committee to conduct open market operations that would continue the policy of restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities.

Votes for this action: Messrs. Martin, Hayes, Allen, Balderston, Deming, Erickson, Johns, King, Robertson, Shepardson, and Szymczak. Vote against this action: Mr. Mills.

Reports at this meeting, both national and regional, continued to reflect the high level of economic activity that had been noted at the meeting of the Committee two weeks earlier. Recovery in production and employment from the lower levels reached during the steel strike had been rapid. The reports indicated a somewhat less buoyant attitude among businessmen than had been reported at the preceding meeting, however, and contrasted to some degree with earlier expectations in some quarters of an explosive surge of activity following settlement of the steel strike. Seasonal contraction in bank credit appeared to be occurring about as usual, and signs of strain in the credit and capital markets were less than a few weeks earlier. A marked easing of Treasury bill rates, reflecting heavy demand from nonbank investors, had taken place despite substantial sales of bills from the System Account portfolio. Nevertheless, a feeling of tightness in credit markets was reported, and the question was raised as to whether growth of savings, increased velocity of the money supply, and willingness of member banks to increase their borrowings from the Reserve Banks would be sufficient in the aggregate to meet the credit demands needed to support prospective expansion in economic activity.

The Committee's decision as to policy for the period immediately ahead was to continue substantially the same degree of restraint on credit expansion that had been followed for some weeks past. However, had a large Treasury financing not been

imminent, several Committee members would have preferred, in view of reported economic developments, to move slightly in the direction of reducing the degree of pressure on bank reserve positions. No Committee member favored increasing the degree of restraint at this time.

Mr. Mills voted against renewal of the policy directive because of his continued preference for a directive that would provide for fostering sustainable economic growth and expanding employment opportunities while guarding against inflationary credit expansion, wording which he felt called for somewhat less restraint than had been applied during the past few months.

February 9, 1960

Authority to effect transactions in System Account.

Indicators of economic output continued to show strength. Gross national product was still expected to attain an annual rate close to $500 billion for the first quarter, and earlier estimates of the Board's index of industrial production for January were being revised upward as preliminary data became available. Employment apparently was being well maintained. After a record Christmas trade, seasonally adjusted department store sales continued at about the same level in January as in December, while construction activity, seasonally adjusted, moved upward to an annual rate that represented the highest January on record. Recent figures indicated that exports were likely to provide somewhat greater stimulus to the economy than in the past year.

While economic activity was clearly proceeding at a satisfactory pace, nevertheless the extremely optimistic attitudes that had prevailed in some quarters around the turn of the year were being reevaluated. Evidence of the boom widely anticipated following termination of the steel strike had not yet appeared, and there were few, if any, signs of undue fervor.

The abatement of enthusiasm concerning the business outlook had been reflected in financial developments. Following extreme tightness in the money market in December, with sharply rising interest rates and an unusually heavy seasonal loan demand, money conditions eased notably in January. Interest rates declined, and bank loans were reduced, about as much as they had increased in December. Stock prices, after rising close to the 1959 high at the end of December, declined sharply thereafter and presently were near the low of the past 12 months. In contrast, bonds had risen in price since the first of the year, and yields on long-term U.S. Government bonds were back to November levels. Yields on intermediate-term Government securities had declined to around the lowest levels of October 1959, while yields on Treasury bills had fallen to the lowest levels since late August.

Together, figures for money supply and turnover of bank deposits indicated a rate of growth in total monetary transactions of nearly 4 per cent a year since mid-1957, but the money supply, which appeared to have declined slightly in January, was only about one-half of 1 per cent larger than the year-ago level. The current figure was a little more than $5 billion larger than the peak of mid-1957, representing an average annual rate of increase of less than 2 per cent.

In appraising open market policy at this juncture, the Committee took into account all of the aforementioned elements, along with the fact that the easier money situation had resulted from market forces rather than any change in monetary policy. There was unanimity of opinion that any tightening in the degree of restraint should be avoided. On the contrary, while a majority favored watchful waiting during the period immediately ahead, there were several within that group who leaned toward slightly less restraint, and the views of some members of the Committee were more positively in that direction. It was felt rather generally that a moderate increase in the money supply would be desirable.

In the light of the current situation, consideration was given to the possibility of a modification of the policy directive to the Federal Reserve Bank of New York so as to place emphasis, in

clause (b), upon the fostering of sustainable growth in economic activity and employment rather than upon restraint of inflationary credit expansion. In support of such a modification it was pointed out, among other things, that business and financial attitudes and trends were less exuberant than in May 1959, when the existing policy directive was first adopted. The consensus, however, did not favor a change at this time, on the grounds that it would indicate a basic shift in open market policy and that such a shift was not called for at present.

Therefore, the action taken was to renew the directive, which called for restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities.

Votes for this action: Messrs. Martin, Hayes, Allen, Balderston, Erickson, Johns, King, Robertson, Shepardson, Szymczak, and Leedy. Vote against this action: Mr. Mills.

Mr. Mills continued to favor a change in the directive along the lines he had suggested at the past several meetings, which would provide for fostering sustainable economic growth and expanding employment opportunities while guarding against inflationary credit expansion.

March 1, 1960

1. Authority to effect transactions in System Account.

Clause (b) of the first paragraph of the Committee's policy directive was revised at this meeting so as to provide that open market operations should be conducted with a view "to fostering sustainable growth in economic activity and employment while guarding against excessive credit expansion." This replaced the clause of the directive that had been in effect since May 26, 1959, calling for operations with a view "to restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities."

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Bryan, Fulton, King, Leedy, Mills, Robertson, Shepardson, and Szymczak. Votes against this action: none.

National and regional reports at this meeting indicated continuance of underlying economic strength, with evidence lacking to suggest that 1960 would be other than a prosperous year. It appeared, however, that some of the earlier exuberant expectations were not being fully realized and that excesses in commitments and in credit extensions were not developing. The rapid inventory accumulation that occurred in January and which appeared to have continued in February, combined with a slight decline in new orders in January, suggested to some observers that the spurt of activity attributable to the resumption of production upon conclusion of the steel strike might be nearing an end before any other expansive factor had emerged to take its place. Also, while retail trade remained at a high level, there had been an edging-off from December to January in total retail sales, other than sales of automobiles, and data for the first three weeks in February suggested that department store sales, seasonally adjusted, had slipped slightly. It appeared that industrial production would show no further increase in February. In the stock market, prices were fluctuating erratically at levels slightly above the low reached early in February.

Abroad, near-boom conditions appeared to be developing in many countries. Interest rates in industrialized countries had been tending to rise in response to increased economic activity and speculative developments, and official policies were moving further in the direction of restraint. Following a substantial increase in U.S. exports in December, preliminary figures for January indicated a level which, if anything, was higher than December, along with a considerable drop in imports. However, a substantial over-all deficit in the balance of payments still was indicated.

During the first three weeks in February, loans of banks in leading cities expanded substantially, with the increase in business loans particularly large. In order to meet loan demands, banks continued to reduce their holdings of U.S. Government securities. However, demand deposits adjusted at city banks declined by a larger amount during February than in the same month of any other recent year except 1956, and country bank figures for the first half of the month failed to show the increase that occurred in the corresponding period of 1959. It appeared that the seasonally adjusted money supply may have declined further in February to a level below that of a year earlier.

System open market operations during the period since the previous meeting of the Committee had continued generally to maintain pressure on the reserve positions of banks. The mid-March tax and dividend dates were now approaching, and the money market might be under some degree of pressure to accommodate seasonal liquidity needs. In view of this short-run consideration, along with considerations relating to business and financial developments generally, the Committee concluded that it would be appropriate to supply reserves to the banking system somewhat more readily. Accordingly, the consensus favored, for the immediate future, a policy of moderately less restraint.

In the light of existing conditions, a policy directive calling for fostering sustainable growth in economic activity and employment, while guarding against excessive credit expansion, was deemed more appropriate than a directive emphasizing restraint on inflationary credit expansion, and the Committee unanimously agreed to change clause (b) accordingly.

2. Repurchase agreements covering U.S. Government securities.

The Committee voted to renew the existing authorization to the Federal Reserve Bank of New York to enter into repurchase agreements with nonbank dealers in U.S. Government securities, subject to the following conditions and to the understanding that the authority would be used sparingly in entering into repurchase agreements at rates below the discount rate:

1. Such agreements
   (a) In no event shall be at a rate below whichever is the lower of

(1) the discount rate of the Federal Reserve Bank on eligible commercial paper, or (2) the average issuing rate on the most recent issue of 3-month Treasury bills;

(b) Shall be for periods of not to exceed 15 calendar days;

(c) Shall cover only Government securities maturing within 15 months; and

(d) Shall be used as a means of providing the money market with sufficient Federal Reserve funds to avoid undue strain on a day-to-day basis.

2. Reports of such transactions shall be included in the weekly report of open market operations which is sent to the members of the Federal Open Market Committee.

3. In the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, the securities thus acquired by the Federal Reserve Bank of New York shall be sold in the market or transferred to the System Open Market Account.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Bryan, Fulton, King, Leedy, Mills, Shepardson, and Szymczak. Vote against this action: Mr. Robertson.

The foregoing authorization had been renewed by the Committee in March of each year since it was approved unanimously by the Committee at a meeting on August 2, 1955. At this meeting, Mr. Robertson expressed the view that in recent times there had been a tendency to use repurchase agreements more frequently than had been contemplated at the time of the Committee's action in August of 1955. He felt that the Committee should minimize the use of such agreements and maximize cash trading. In addition, he suggested amendment of the authorization so as to confine the rates to the discount rate at the Federal Reserve Bank of New York, rather than to allow under some circumstances the use of a rate lower than the discount rate. This was because he considered it inequitable to permit nonbank dealers to borrow from the Federal Reserve System at rates below those prescribed for member banks.

In voting to renew the authority in its existing form, the majority of the Committee took the position that the repurchase instrument had proved to be a convenience to the Federal Re-

serve System and of great importance in carrying out monetary policy, that its use should not be minimized, and that the authorization should not be changed to eliminate the right to use a rate lower than the discount rate under certain circumstances, if that appeared desirable.

Mr. Robertson dissented from the renewal of the existing authorization for the reasons indicated by him.

3. Review of continuing authorities or statements of policy.

This being the first meeting of the Federal Open Market Committee following the election of and assumption of duties by new members from the Federal Reserve Banks for the year beginning March 1, 1960, the Committee reviewed and reaffirmed all continuing statements of policy and authorities for operations. These included three statements of policy that had been renewed by the Committee each year since 1953 regarding the objectives of monetary and credit policy, the confining of operations for the System Account generally to short-term securities, and the preclusion unless expressly authorized by the Committee of transactions for the purpose of altering the maturity pattern of the System's portfolio by means of offsetting purchases and sales of securities.

By prearrangement, extensive consideration was given to the three statements of policy relating to these matters, but at the conclusion of the discussion the Committee decided to review the subject further in the light of certain suggestions that had been made. Accordingly, the action taken was to continue these three operating policies on a temporary basis with the understanding that they would be brought up again at a subsequent meeting.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Bryan, Fulton, King, Leedy, Mills, Robertson, Shepardson, and Szymczak. Votes against this action: none.

March 22, 1960

1. Authority to effect transactions in System Account.

Although underlying forces in the economy continued to reflect strength, moderate declines had occurred in certain indices of activity. Industrial production, as measured by the Board's index, slipped slightly from January to February, while housing starts in February were at a seasonally adjusted annual rate approximately 20 per cent below the peak reached in the spring of 1959. Retail sales had been affected in the past several weeks by adverse weather conditions that prevailed throughout large areas of the country. On the other hand, unemployment and employment statistics showed improvement in February, new orders were up slightly in that month, and a recent survey of plant and equipment expenditure expectations indicated that plans were in line with earlier estimates. In summary, the balance of economic forces showed little change from three weeks earlier, and the more moderate appraisal of business prospects that had developed after the turn of the year continued to prevail generally.

Financial developments were highlighted by a continued decline in money rates, in contrast to the usual increase in such rates over the March tax and dividend period. During the three weeks since the previous Committee meeting, a significant decline occurred in rates on U.S. Government securities, particularly short-term issues, as exemplified by the establishment of a rate of 3.03 per cent in the weekly auction of 3-month Treasury bills on March 21, compared with 4.28 per cent in the auction on February 29. A heavy demand for Government securities from nonbank sources persisted. Federal Reserve operations, after absorbing a portion of the reserves released by the decline in bank deposits and in required reserves during February, subsequently added somewhat to the availability of reserves. Currently available figures indicated that the money supply, defined in terms of currency and demand deposits, had declined by about a billion dollars in February, accompanied by an accelerated rate of deposit turnover, and preliminary statistics for early March suggested that the downward trend of the money supply had not been reversed.

There was a clear consensus, in the light of current business

uncertainties, the nature of financial developments, and the imminence of Treasury financing, scheduled for announcement around the end of the month, that open market operations during the period immediately ahead should be directed toward maintaining about the existing situation, with no tightening and with no further relaxation.

In the circumstances, the Committee continued the policy directive adopted at the preceding meeting (March 1, 1960), which provided for fostering sustainable growth in economic activity and employment while guarding against excessive credit expansion.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Bryan, Fulton, Leedy, Mills, Robertson, Shepardson, and Szymczak. Votes against this action: none.

2. Review of continuing authorities or statements of policy.

At the meeting on March 1, 1960, it was agreed to continue the Committee's statements of certain operating policies on a temporary basis, with the understanding that the matter would be brought up again at a subsequent meeting. After additional discussion at this meeting, the operating policies were reaffirmed, as follows:

a. It is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market, and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets).

b. Operations for the System Account in the open market, other than repurchase agreements, shall be confined to short-term securities (except in the correction of disorderly markets), and during a period of Treasury financing there shall be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturities to those being offered for exchange; these policies to be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee.

c. Transactions for the System Account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except in the correction of disorderly markets), and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio; such policy to be followed until such time as it may be superseded or modified by further action of the Federal Open Market Committee.

Votes for this action: Messrs. Martin, Balderston, Bryan, Fulton, Leedy, Mills, Robertson, Shepardson, and Szymczak. Votes against this action: Messrs. Hayes and Bopp.

In voting to reaffirm these policies, it was noted that any of them could be changed by majority vote at any meeting of the Federal Open Market Committee and that, according to their wording, the policies were to be followed only until such time as they might be superseded or modified by further action of the Committee. These policies had been carried as Committee statements since 1953, and, as provided therein, exceptions had been made on certain occasions when authorized by the Committee. It being felt that the experience with the operating policies had been satisfactory, the majority of the Committee found no sufficient reason to change their wording at this time.

Mr. Hayes voted against reaffirmation of the operating policies in their existing form, since he felt that the Committee should not take any action which, in his opinion, would voluntarily tie its hands, and it should not create an impression of an excessively rigid approach to open market operations. Further, he felt that the operating policies did not reflect his view that monetary policy involved more than consideration of bank reserves alone. He would have accepted various suggestions for reformulating the operating policies, including the rewording that he had suggested in March 1958 and in March 1959, except that, in statement "a," in order that there be no question of his belief that monetary policy involved more than concern with bank reserves alone, he would substitute the word "primarily" for the word "solely."

Mr. Bopp felt that inasmuch as the Federal Open Market

Committee was meeting regularly on approximately a three-week basis, it was not necessary to have these continuing operating policies. If the operating policies were to be retained, however, he believed they should be so phrased as to indicate that exceptions might be made as circumstances warranted.

April 12, 1960

1. Authority to effect transactions in System Account.

While economic activity continued generally at a satisfactory level, developments in the 3-week period since the preceding Committee meeting were somewhat mixed and did not serve to dispel the atmosphere of uncertainty with respect to the business outlook that had prevailed since shortly after the turn of the current year. With the advent of more favorable weather, substantial improvement occurred in department store and automobile sales during the latter part of March, while surveys of consumer attitudes and buying plans suggested continued optimism. Less favorable factors included a contraseasonal rise in unemployment in March, a declining trend in the rate of steel production, and a persistent downward movement in construction activity. Commodity prices were substantially unchanged. The latest available statistics on exports and imports reflected continuation of the encouraging trend of the past several months, and boom or near-boom conditions continued to develop in most industrialized countries abroad.

Total credit demands in the first quarter of the current year had not been as large as during the similar period of 1959. The Federal Government retired more debt than in the first quarter of any year since 1956, and borrowing in the long-term capital market by corporations and by State and local governments was substantially smaller than in recent years. Although short-term borrowing by business at banks continued at a high level in March, and consumer borrowing showed an increase, the total volume of bank credit continued to decline as the aforementioned increases were more than offset by a decline in other loans and by a further reduction in bank holdings of securities. Reserves released by the greater than seasonal decline in deposits had been used by banks principally to reduce indebtedness. Final statistics on the money supply through the end of March were not yet available, but it appeared that the declining trend of the past several months may have continued for at least part of the month.

Although some members of the Committee were inclined to feel that conditions were such as to warrant continuation of the prevailing degree of restraint, the consensus as to open market policy for the ensuing three weeks favored easing further the reserve positions of member banks, and thus encouraging an increase in the money supply, this to be done, however, in a modest way. Subject to this understanding, the Committee renewed the outstanding directive to the Federal Reserve Bank of New York which called for fostering sustainable growth in economic activity and employment while guarding against excessive credit expansion.

Votes for this action: Messrs. Martin, Balderston, Bopp, Bryan, Fulton, Leedy, Mills, Robertson, Shepardson, Szymczak, and Treiber. Votes against this action: none.

2. Authority to acquire Treasury bills through "swap" transactions.

The Committee authorized the Management of the System Account to acquire up to $150 million of 1-year Treasury bills maturing July 15, 1960, between this date and the date of the next Committee meeting, by means of outright purchases or by swap transactions for other Treasury bills.

Votes for this action: Messrs. Martin, Balderston, Bopp, Bryan, Fulton, Leedy, Mills, Shepardson, Szymczak, and Treiber. Vote against this action: Mr. Robertson.

This authorization represented an exception to two of the Committee's continuing operating policies, last renewed at the meeting on March 22, 1960. One of the exceptions was the departure in some degree from the policy that "intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy," since the purpose of these proposed transactions was to smooth the refinancing of an instrument—the 1-year Treasury bills maturing on July 15, 1960—that had not as yet been afforded a full test of market receptivity. The other exception was to the operating policy providing that transactions for the System Account in the open market shall be entered into "solely for the purpose of providing or absorbing reserves . . . and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System portfolio."

While the express purpose of the acquisitions of the July 15 bills, whether by outright purchases or by swap transactions, would be to assist the Treasury in a forthcoming refinancing, such acquisitions would nevertheless be consistent with the objectives of credit and monetary policy to the extent that they were outright purchases and supplied additional reserves to the market in accordance with current Committee policy. The Committee's decision that acquisitions might be on a swap basis, if the specific issue of Treasury bills was not available for outright purchase or if outright purchase was not in accord with the reserve position at a particular time, reflected a view that it would be appropriate to experiment with swap transactions to the extent authorized as a means of helping to bring some of the specified securities into the System's portfolio in order to help a subsequent refinancing of these Treasury securities. The view was also expressed that the acquisition of securities in this manner would help to increase the flexibility and usability of the System's short-term portfolio, and thus contribute to the effectiveness of the operations for the Account.

In voting against this action, Mr. Robertson expressed the view that the authorization to engage in offsetting purchases and sales of securities for the System Account for the purpose of aiding the Treasury in its debt management functions would not be justified by the possible benefits to be derived therefrom by the Treasury. In his opinion, such an arrangement would inject an additional element of uncertainty into the Government securities market which might have the effect of providing a disincentive for dealers to take positions in issues that the System might be likely to buy or sell for purposes other than providing or absorbing reserves. In addition, he felt that this would appear to be a first step toward more general interference with market forces in all areas of the Government securities market and might lead ultimately to relatively frequent operations for purposes other than providing or absorbing reserves. At least, it might lead to a fear thereof, which in itself would be disruptive to a freely functioning market. It was his belief that, with institutional relationships like those prevailing within the Federal Reserve System and between the System and the Treasury, it was desirable to keep the lines of precedent as clear and clean as possible and to avoid muddying them by moves that might subsequently be used as levers for compromising basic monetary policy objectives, especially when the potential benefits of such moves appeared to be so limited.

May 3, 1960

1. Authority to effect transactions in System Account.

Available data suggested either fair strength or improvement in general economic indicators during the month of April, particularly in the area of consumer spending. With the advent of more favorable weather conditions, department store sales, seasonally adjusted, approached the peak level of July 1959, and automobile sales likewise strengthened. Thus, despite further cutbacks in steel output, it appeared that the Board's index of industrial production may have held at the March level or dropped only slightly. In summary, while the extent of unemployment continued to be a matter of concern in a number of areas, economic activity was generally at a relatively high level.

Business attitudes, however, were characterized by lack of exuberance and, although continued dominance of expansive forces seemed probable, current economic developments pointed to a moderate rather than a boom pace of expansion. The inflationary psychology that had been prevalent last year and earlier this year seemed definitely to have diminished.

The lack of exuberance in the business picture was evident also in the financial area, and interest rates had resumed a downward trend. Stock market prices, after a relatively brief thrust toward higher levels in late March and early April, had fallen back close to the lows of the first quarter of the year. Private demands for credit, although not as heavy as had been anticipated by some observers at the turn of the year, were generally quite strong, but banks were said to be less willing lenders because the trend of their liquidity positions had carried to a point regarded by many of them as undesirable.

It was the consensus of the Committee that current conditions justified moving modestly in the direction of increasing the supply of reserves available to the banking system. The Committee concluded that this further relaxation of restraint could be accomplished within the scope of the existing policy directive, which called for fostering sustainable growth in economic activity and employment while guarding against excessive credit expansion. Accordingly, although some question was raised with regard to the appropriateness of the last part of that statement, the directive was renewed without change.

> Votes for this action: Messrs. Martin, Balderston, Bopp, Bryan, Fulton, King, Leedy, Robertson, Shepardson, Szymczak, and Treiber. Votes against this action: none.

2. Authority to acquire Treasury bills through "swap" transactions.

On April 12, 1960, the Committee had authorized the acquisition, in the period between that date and the next meeting of the Committee, of up to $150 million of 1-year Treasury bills maturing July 15, 1960, either by outright purchase or by swapping other bills. Following discussion of a report on acquisitions of the July bills pursuant to that action, the previous authorization was renewed, effective until the date of the next Committee meeting.

Votes for this action: Messrs. Martin, Balderston, Bopp, Bryan, Fulton, King, Leedy, Shepardson, Szymczak, and Treiber. Vote against this action: Mr. Robertson.

Mr. Robertson's negative vote reflected the views he had stated at the meeting on April 12, 1960, with respect to "swap" transactions.

May 24, 1960

1. Authority to effect transactions in System Account.

Clause (b) of the first paragraph of the Committee's policy directive was changed at this meeting to provide that open market operations should be conducted with a view "to fostering sustainable growth in economic activity and employment by providing reserves needed for moderate bank credit expansion." The preceding directive, in effect since March 1, 1960, had called for operations with a view "to fostering sustainable growth in economic activity and employment while guarding against excessive credit expansion."

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Fulton, King, Leedy, Mills, Robertson, Shepardson, and Irons. Votes against this action: none.

Preliminary information for the first part of May suggested that the rates of gain, in sectors of the economy where gains were recorded from March to April, may not have continued. In addition, the improvement during April was not shared by certain basic industries; new orders in durable goods manufacturing were off somewhat further in that month. Steel output continued to decline through April and the first weeks of May as new orders ran considerably below current production.

Recent credit developments indicated that neither borrowers nor lenders had responded with alacrity to the increased avail-

ability of lendable funds at the commercial banks. Interest rates continued below the peak levels reached several months earlier but tended to fluctuate widely in reflection of actual or anticipated variations in supply or demand conditions. The most significant point of contrast between the credit situation this year and a year ago was the shift in the fiscal position of the Federal Government to one of debt reduction, and other credit demands had not increased sufficiently to offset the decline in Government borrowing. Although bank reserve positions, over-all, were under somewhat less pressure at this time than during the latter half of 1959, total member bank borrowing, including Federal Reserve advances, resort to the Federal funds market, interbank loans, and reverse repurchase agreements with nonbank sources, continued to be substantial. The volume of borrowing, together with the margin between the Reserve Bank discount rate and short-term market rates, was partly responsible for wide fluctuations in Treasury bill rates in response to variations in market forces.

International developments had been highlighted by the breakdown during the past week of the so-called Summit Conference, a meeting of the chiefs of state of principal nations in Paris. However, it was not yet possible to appraise the extent, or even the direction, of the impact of this occurrence upon the U.S. economy.

The consensus resulting from evaluation of the current situation favored a further supplying of reserves through open market operations with a view to permitting a moderate expansion of bank credit and encouraging an increase in the money supply, which thus far had failed to respond to the easing steps taken by monetary policy. In line with this consensus, and since the prospect of undue credit expansion in the near-term future seemed to have become remote, the Committee changed clause (b) of the directive so as to emphasize that the providing of reserves needed for moderate expansion of bank credit constituted an objective of policy at this stage.

2. Authority to acquire Treasury bills through "swap" transactions.

The authorization given at the meeting on April 12, 1960, and renewed at the May 3 meeting, to acquire up to $150 million of 1-year Treasury bills maturing July 15, 1960, either by outright purchase or by swapping other bills, was continued until the date of the next meeting of the Committee.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Fulton, King, Leedy, Mills, Shepardson, and Irons. Mr. Robertson voted "no" on this action insofar as it extended to the acquisition of the 1-year bills by "swap" transactions.

June 14, 1960

1. Authority to effect transactions in System Account.

The data presented for the Committee's consideration included an extensive review of domestic and international business and financial developments since the recession low of 1958. Attention was drawn to the developing business investment boom abroad and to the fact that in many foreign countries the current problems of adjusting monetary policy to economic events stood in contrast to those in the United States. The domestic situation reflected an absence of dramatic business or financial developments since the breakdown of the Summit Conference in Paris four weeks earlier. While exports were expanding relative to imports, in none of the broad categories of domestic demand—inventory accumulation, capital goods, residential building, consumer spending, or Government activity—was a marked upsurge evident. In general, activity continued at a comparatively high level, with prices relatively stable.

The privately held money supply declined substantially in May while, on the other hand, the rate of turnover of deposits continued at an advanced level, and holdings of liquid assets other than money appeared to have risen further. Interest rates in markets for both short-term and long-term funds had been moving downward recently, reflecting not only the sharp reduction in Treasury requirements this year but also some slackening of other credit demands.

Net borrowed reserves of member banks had been progressively reduced since the beginning of the year as required reserves declined more than seasonally. In recent weeks the Federal Reserve System had purchased Government securities, and the net borrowed reserve position of banks gave way in early June to small free reserve positions. A reduction from 4 per cent to 3½ per cent in the discount rates of the Federal Reserve Banks, accomplished within the past two weeks, also tended further to ease restraint on bank credit expansion. Despite the easing of reserve positions, however, no significant expansion of total bank credit had occurred. Although borrowings from the Federal Reserve Banks were considerably below the levels prevailing earlier in the year, city banks still had a large volume of other indebtedness, consisting mostly of purchases of Federal funds from other banks. The banking system also continued to dispose of holdings of Government securities, principally Treasury bills and other short-term securities. In view, however, of the continued demand for short-term investments from nonbank investors, bill rates declined further and the gap between such rates and the discount rate continued to be substantial.

Since no marked shifts in the economic situation were visible, and since the degree of responsiveness of the banking system to the recent easing of reserve positions and to interest rate differentials was still uncertain, the consensus at this meeting favored waiting watchfully in the period immediately ahead, although with the understanding that any deviations in the conduct of open market operations should be on the side of ease rather than restraint. In the light of this consensus, the policy directive adopted at the meeting on May 24, 1960, which provided for fostering sustainable growth in economic activity and employment by providing reserves needed for moderate bank credit expansion, was renewed without change.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Bryan, Fulton, King, Leedy, Mills, Robertson, and Szymczak. Votes against this action: none.

2. Authority to acquire Treasury bills through "swap" transactions.

The authorization given at the meeting on April 12, 1960, and renewed at the two subsequent meetings, to acquire up to $150 million of 1-year Treasury bills maturing July 15, 1960, either by outright purchase or by swapping other bills, was continued until the date of the next meeting of the Committee.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Bryan, Fulton, King, Leedy, Mills, and Szymczak. Mr. Robertson voted "no" on this action insofar as it extended to the acquisition of the 1-year bills by "swap" transactions.

July 6, 1960

Authority to effect transactions in System Account.

Available data indicated that at midyear economic activity was at a high, probably close to record, level. Little upward momentum was evident, however, and uncertainty regarding future trends continued to be widespread in business circles. According to preliminary estimates, industrial production had been maintained in June at approximately the May level, which was slightly higher than April, while gross national product in the second quarter of the year appeared to have shown a modest advance over the first quarter, due principally to a somewhat greater seasonally adjusted rate of inventory accumulation than had been anticipated earlier. Retail sales of automobiles and consumer goods increased in June following declines in May, and prices, particularly at wholesale, continued to be quite stable. The level of unemployment remained relatively high, steel mill operations declined further through the month of June, and the seasonally adjusted rate of total construction outlays also had declined. April data on U.S. foreign trade and preliminary May figures indicated a slow but steady increase in exports and, if anything, a slight decline in imports; thus, improvement in the

trade sector of the balance of payments was tending to offset an opposite trend in the capital sector.

In the period since the preceding Committee meeting there had been varied and substantial pressures on money and credit markets, but for the period as a whole large net Federal Reserve purchases of Government securities kept those pressures from constricting bank reserve positions. During the month of June there was a further drop in interest rates, particularly in the short-term sector; except for the summer of 1958, Treasury bill rates were lower than at any time since early 1956. The decline in interest rates reflected mainly fundamental market forces that had been in process earlier, including the changed position of the Federal budget from large deficit to small surplus, the lessened fear of inflation, and a tendency to shift a greater part of the public's liquid asset holdings from cash to securities. However, the reduced pressure on the reserve position of banks and the reduction of Federal Reserve discount rates in the first half of June also exerted an influence. In June there was a substantial expansion in the volume of new financing in private capital markets, but the seasonal increase in bank loans and the seasonal decline in bank holdings of securities were both moderate in amount. While demand and time deposits increased, it seemed unlikely that the seasonally adjusted rise in demand deposits was sufficient to offset the sharp drop in May. Treasury deposits continued at a high level in June, and at the time of this meeting financing operations that would help to meet large cash needs during the next two months were in process.

Although some Committee members favored moving somewhat further in the direction of making reserves available to the banking system, the consensus for the period immediately ahead was to continue to provide reserves at approximately the present rate, within the general framework of the existing policy directive to the New York Bank which called for fostering sustainable growth in economic activity and employment by providing reserves needed for moderate bank credit expansion. Accordingly, the directive was renewed.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Fulton, King, Leedy, Mills, Robertson, Shepardson, Szymczak, and Leach. Votes against this action: none.

2. Authority to acquire Treasury bills through "swap" transactions.

Transactions under the authorization given at the meeting on April 12, 1960, and renewed at the three subsequent meetings, to acquire up to $150 million of 1-year Treasury bills maturing July 15, 1960, either by outright purchase or by swapping other bills, had resulted in acquisitions of such bills to the full extent of the authorization. In the circumstances, and since there appeared to be no need for acquiring additional quantities of such bills through "swap" transactions, the outstanding authorization was terminated, effective immediately.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Fulton, King, Leedy, Mills, Robertson, Shepardson, Szymczak, and Leach. Votes against this action: none.

July 26, 1960

Authority to effect transactions in System Account.

Available information indicated that during the period since the previous meeting of the Open Market Committee there had been no significant change in the over-all economic situation. Activity continued at a high level, although with a gradual increase in unutilized plant capacity and manpower and without indication of any significant upward thrust. A continued high rate of consumer spending was one of the more favorable aspects of the picture, but in general favorable signs in some sectors of the economy were being counterbalanced by signs of weakness in other sectors. The existing uncertainties were being reflected in reports of some deterioration of sentiment regarding business prospects.

Longer term interest rates had declined further during July, and credit demands did not appear to be particularly vigorous. While the reserve positions of city banks had eased, the positions

of country banks continued to reflect tightness, largely because of seasonal factors. A renewal of the gold outflow had occurred recently, evidently due in some part to a movement of capital attracted by higher interest rates available in other markets. The Treasury had announced its intention to carry out the refunding of a large issue of notes maturing August 15, 1960, through a cash refunding technique, with the terms of the offering to be announced shortly.

Upon appraisal of business and financial developments, it was the consensus of the Committee that open market operations should continue to make reserves for bank deposit expansion readily available. Accordingly, the directive to the New York Bank which called for fostering sustainable growth in economic activity and employment by providing reserves needed for moderate bank credit expansion was renewed.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Bryan, Fulton, Leedy, Mills, Robertson, and Shepardson. Votes against this action: none.

August 16, 1960

Authority to effect transactions in System Account.

At this meeting clause (b) of the first paragraph of the Committee's policy directive was changed to provide that open market operations should be conducted with a view "to encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment." The preceding directive, in effect since May 24, 1960, had called for operations with a view to "fostering sustainable growth in economic activity and employment by providing reserves needed for moderate bank credit expansion."

Votes for this action: Messrs. Balderston, Bopp, Bryan, Leedy, Mills, Robertson, and Treiber. Votes against this action: Messrs. King, Shepardson, Szymczak, and Allen.

Relative steadiness in industrial production, construction activity, employment, retail trade, and prices tended to support the view that economic activity was continuing at about the same over-all rate as had prevailed at the end of the second quarter of the year. Business inventories, in the aggregate, did not appear excessive in relation to product sales, especially final sales to consumers; indeed, consumer demand seemed to be a sustaining influence in maintaining the level of economic activity, although there was no evidence that it was providing a further stimulus to the economy. Recently released data on second-quarter corporate profits showed declines from the high year-ago level and from the first quarter, and perhaps more importantly the declines were quite general throughout the various industrial categories. As to the U.S. balance of payments, data for the second quarter of the year reflected improvement in the trade balance at an annual rate of nearly $1 billion. Beginning in July, however, the outflow of gold had been intensified, reflecting the continuing deficit in the over-all balance of payments.

The strong demand for bank loans that had been evident during the first half of the year appeared now to have tapered off, and a shift from loans toward investments had contributed to some improvement in bank liquidity positions. The seasonally adjusted end-of-month money supply increased in July for the second consecutive month, while total reserves, nonborrowed reserves, and required reserves all increased over the 3-month period through July. Market interest rates, on balance, had shown substantial further declines, with most yield series on U.S. Government securities close to their lows for the year.

Federal Reserve actions announced since the previous Open Market Committee meeting included a reduction of margin requirements, a reduction of the discount rate to 3 per cent at several Reserve Banks, a further release of vault cash to be counted by banks toward meeting required reserves, and a reduction of the reserve requirement for central reserve city banks. These actions were effective, or to become effective, on dates from late July to the first of September.

For several months Committee policy had been directed toward providing reserves needed for moderate bank credit expansion, and the consensus of the meeting was that this objective should be emphasized. For the period immediately ahead, it was also the consensus, particularly in view of the uncertainty as to the extent to which banks would use released vault cash to expand credit, that doubts arising in the conduct of open market operations should be resolved on the side of ease and that such operations should take into account, even more than usual, the tone of the market rather than statistical measures.

After consideration of several suggestions for revision of the policy directive in a manner that would more strongly suggest a positive attitude toward increasing the availability of reserves, it was voted to change clause (b) of the directive in the manner heretofore indicated. The members of the Committee who voted against a change in the directive were not in disagreement with the aforementioned consensus as to open market operations. They felt, however, that such operations could be carried out within the framework of the existing directive or, to express it another way, that the consensus did not contemplate a sufficient modification in the course and objectives of open market operations to necessitate a change in the directive.

September 13, 1960

Authority to effect transactions in System Account.

Although the trend of aggregate economic activity continued to be sideways at a relatively high level, reports at this meeting suggested more strongly than before that a renewed upsurge of activity was not an immediate prospect and that the greater likelihood was for an extension of the sideways movement or some downward drift. Unfavorable developments, in addition to the continued underutilization of manpower and industrial resources, included evidence of a weakening in the demand for residential construction and a leveling off of current and prospective plant and equipment expenditures, apparently reflecting in part a reduction of profit margins. Moreover, there now appeared to be some signs that the strength of consumer demand might be faltering.

On the financial side, the August statistics on bank credit and the money supply were disappointing, the increases in both figures having been rather small and less than in July. The rate of growth in consumer credit had slowed down in July. In addition, the pace of new security financing had moderated in recent weeks, and at the date of this meeting common stock prices were back to the lows of the summer. A continued slack demand for commercial bank loans, particularly on the part of business concerns, indicated that the upturn in credit demand normally associated with the fall season had been slow in developing. Despite a statistical appearance of greater ease, reserve positions of city banks had been under somewhat more pressure in recent weeks and money market rates had risen; reasons included the large demands for cash that normally occur in September and the slowness with which reserves made available to country banks in late August through the release of vault cash had permeated the banking system. The Treasury had announced a program of advance refunding of certain intermediate-term bond issues, with the books to remain open for a period of several days beyond the date of this meeting.

Balance-of-payments data reflected continuation of the improvement in the trade balance. However, in view of large capital movements, the outflow of gold continued and foreigners added further to their accumulation of dollar balances.

The consensus as to open market operations called for supplying needed reserves readily, avoiding the development of seasonal strain in bank reserve positions, and resolving doubts on the side of ease, with the understanding, as at the previous meeting, that such operations would be conducted more on the basis of the tone of the market than on the basis of statistical yardsticks. This being the consensus, the directive to the New York Bank providing for open market operations with a view to encouraging

monetary expansion for the purpose of fostering sustainable growth in economic activity and employment was renewed without change.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Bryan, Fulton, King, Leedy, Mills, Robertson, Shepardson, and Szymczak. Votes against this action: none.

October 4, 1960

Authority to effect transactions in System Account.

Although some of the most recent economic data reflected further downward drift, many indicators were showing a continued sideways movement, and some data suggesting a possible strengthening of economic forces had appeared. The general situation in regard to economic activity thus appeared to be mixed, with the direction of further movement highly uncertain.

The employment and unemployment situation continued to be a matter of primary concern; after allowance for seasonal influences, initial and continuing claims for unemployment compensation rose in September and both series stood at unusually high levels for this time of the year. In spite of increased automobile assemblies associated with introduction of the new models, steel operations continued at only a little more than 50 per cent of capacity. Both the number of business failures and the total liabilities of failing firms were running at levels close to postwar peaks. Retail sales, seasonally adjusted, appeared to have been off slightly from August to September, although the second half of September seemed to have been somewhat stronger than the first. There were persistent reports of price concessions, especially for durable goods, with some indications that such concessions might be generating consumer response. In the two weeks prior to this meeting, stock market prices declined sharply to the lowest average level since 1958, evidently reflecting a growing realization that corporate profits were not likely to be as large as had been anticipated.

Following moderate credit expansion in July and August, total bank credit expansion in September, according to preliminary data, was larger than in the corresponding month of other recent years. Business loans at city banks increased fully as much as is usual in September, loans on securities rose much more than seasonally, and bank holdings of securities increased substantially in contrast to the usual decline. These developments appeared to have been associated primarily with heavy tax payments in September. Their liquidity having declined since early in the year, corporations were compelled to sell securities, as well as borrow, in order to meet tax payments. As a result of the pressures on banks and securities markets engendered by the heavy demands for liquidity, there had been some rise in interest rates from the low levels reached in August, notwithstanding actions on the part of the Federal Reserve System to make reserves readily available. The money supply increased slightly more than seasonally in August, and it appeared that there may have been some further increase in September. The Treasury was expected to announce within a few days the terms of refunding of the 1-year Treasury bills maturing in mid-October, along with the terms of an offering to raise new cash.

The latest available information indicated no deterioration in the trade sector of the U.S. balance of payments, but the short-term capital outflow had intensified, apparently due in part to the spread between short-term rates of interest in the United States and the higher rates elsewhere. Net gold purchases by foreigners in September were equal to total purchases for the two preceding months.

In the prevailing circumstances, it was agreed that open market operations should continue to supply needed reserves readily in order to avoid seasonal strain on bank reserve positions, and that doubts should be resolved on the side of ease. The feel and tone of the market were to be emphasized more than statistical guidelines, since the free reserve figure, for example, was still distorted by the inclusion of a widely scattered volume of newly

created reserves that were slow in becoming a factor in the market. To the extent practicable, it was hoped that downward influences on short-term rates could be minimized. The policy directive, which called for encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, was again renewed without change.

Votes for this action: Messrs. Martin, Balderston, Bopp, Fulton, King, Leedy, Mills, Robertson, Shepardson, Szymczak, Irons, and Treiber. Votes against this action: none.

October 25, 1960

Authority to effect transactions in System Account.

At this meeting the Committee's policy directive was changed in two respects. Clause (b) of the first paragraph, which since August 16, 1960, had provided for open market operations with a view "to encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment" was amended to add the words "while taking into consideration current international developments." In addition, the first paragraph of the directive, as approved at this meeting, specified that the aggregate amount of securities held in the System Open Market Account (including commitments for the purchase or sale of securities for the Account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, was not to be increased or decreased by more than $1.5 billion. The comparable figure contained in the preceding directive was $1 billion.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Fulton, King, Leedy, Mills, Robertson, Shepardson, and Irons. Votes against this action: none.

Gross national product in the third quarter of the current year was estimated to have declined from the second quarter by a fraction of one per cent, and industrial production, as measured by the Board's index, appeared to have contracted by approximately 3 per cent from July to September. Thus, although economic activity remained at a relatively high level, a downward drift continued. In September, factors on the favorable side included an increase in new orders for durable goods, a slight decline in unemployment, and maintenance of a high level of personal income. However, industrial production, nonfarm employment, the average workweek in manufacturing, and retail sales were down from August, while housing starts decreased about 17 per cent to a rate one-third below the peak reached in 1959. Such information as had become available for the first part of October suggested no significant change in the over-all trend, although it appeared that some improvement in consumer spending may have occurred in view of a modest strengthening of department store sales and satisfactory, though not spectacular, public acceptance of new model automobiles. Initial unemployment compensation claims continued at high levels in early October, and the rate of steel output showed little change.

While no downturn in the volume of exports was indicated by available statistics, the outflow of short-term capital from the United States appeared to have continued through the first three weeks of October, apparently reflecting at least in part the relative attractiveness of short-term rates in foreign centers. The outflow of gold also persisted, and within the week preceding this meeting speculative demand from private sources had pushed the gold price in the London market substantially above $35 an ounce.

Analysis of bank loan developments during the four weeks prior to this meeting indicated that most of the record-breaking expansion during the previous four weeks was attributable to temporary factors, particularly heavy borrowing for tax payment purposes, and did not reflect a basic change in the economic climate. For the 8-week period as a whole, the net change in bank loans appeared to have been close to the customary seasonal pattern.

Yields on Treasury bills, which had advanced substantially during the first ten days of October, declined sharply thereafter to approximately the low levels of early August, but yields on medium- and long-term securities remained relatively high and in fact had been following an upward trend until the past few days.

Projected movements in required reserves and market factors indicated a need for additional reserves in the amount of approximately $1,300 million for seasonal purposes during the remainder of the calendar year, and the projections also indicated substantial drains on reserves in the forthcoming 2-week period due to market factors. The Treasury was expected to announce shortly the terms of refunding of a large quantity of securities maturing in mid-November.

It was the consensus that seasonal reserve needs should continue to be met on a liberal basis, with doubts arising in the conduct of open market operations resolved on the side of ease and with emphasis placed on the tone of the market. At the same time, there was a general view that it would be desirable if the objective indicated by the consensus could be accomplished with a minimum of downward pressure on the 90-day Treasury bill rate, particularly in light of the disparity already existing between that rate and short-term rates abroad. If, however, a conflict should arise between providing additional reserves and a further decline in the bill rate, it was understood that the first of these considerations would take precedence.

The prevailing circumstances suggested that during the forthcoming period occasions might arise when it would be found advisable to conduct open market transactions not only in bills but also in other Treasury securities, to the extent permissible within the framework of the Committee's operating policy which limited open market transactions to short-term securities except in the correction of disorderly markets. Reference also was made to possible alternative methods of supplying reserves, including adjustment of member bank reserve requirements through the release of additional vault cash to be counted as required reserves or through a reduction of the reserve requirement against demand deposits of member banks in central reserve cities, both of which actions would serve to implement the reserve requirement legislation enacted in 1959.

Insofar as it described the objectives of domestic monetary policy, the existing directive to the New York Reserve Bank was regarded as continuing to be appropriate. However, in view of the increasing import of international developments in relation to problems within the Open Market Committee's jurisdiction, a matter to which the Committee had been giving close attention for some time, it was considered desirable that specific reference now be made to such developments in the policy directive. Accordingly, clause (b) of the directive was amended for that purpose. The other change in the first paragraph of the directive, enlarging the permissible magnitude of Open Market Account operations until the next Committee meeting, was made in recognition of the volume of transactions that might have to be conducted by the Account in pursuing a program such as envisaged by the consensus.

November 22, 1960

Authority to effect transactions in System Account.

Although the downward drift of certain key statistical indicators that had been in process since about the middle of the year leveled off in October, this appeared to be attributable for the most part to temporary or unusual factors; no fundamental moderation of recessionary tendencies in the general economy was believed to have occurred. As to prospects for the near-term future, recently released surveys of the expectations of business-

men and consumers failed to provide a basis for optimism regarding any significant reversal of trends. The October rise in the seasonally adjusted rate of unemployment was a matter of concern, especially since normal seasonal trends might be expected to result in a further increase in the number of unemployed over the next several months. The prevailing tone was therefore one of mild deterioration, but the declines in economic activity that had occurred thus far were less severe than those in 1954 and 1957-58, and the available evidence did not seem to suggest impending acceleration of the rate of decline.

Statistics through the end of October indicated that some monetary expansion, in accordance with the objectives stated by the Committee in its current policy directive, had been taking place. Over a 4-month period total loans and investments of all commercial banks had increased almost 4 per cent, with the growth concentrated in holdings of Government securities. While most of this growth in earning assets reflected expansion in time deposits, the active money supply (demand deposits and currency) also had risen. The increase in member bank total reserves in the 6-month period ending with October was a direct reflection of the credit-easing actions taken by the Federal Reserve, which, in the attainment of domestic credit policy objectives, had more than compensated for the impact on reserves of the outflow of gold.

The fairly large outflows of capital from the United States that began earlier in the year appeared to have been continuing, and foreign gold purchases thus far in November exceeded the total for each of the two preceding months. Apart from capital movements, however, the United States apparently was close to equality of its international receipts and payments, with the merchandise trade surplus continuing to be substantial.

It was the consensus that no change in the current degree of monetary ease was called for and that a comfortable reserve position should be maintained in the market. One member of the

Committee, however, expressed the strong feeling that, in the light of prevailing economic conditions and in order to give monetary policy a chance to contribute toward reversing the trend of the economy, the total volume of bank reserves should be permitted to rise further—an action that he felt would fall within the bounds of the present directive.

In view of the fact that the recent actions of the Board of Governors with respect to member bank reserve requirements, including the release of all vault cash to be used in meeting required reserves, were soon to become effective, statistical yardsticks seemed likely to be less indicative than usual of the actual state of the money market, making it necessary in the forthcoming period to rely more than usual on the feel of the market in gauging operations for the System Open Market Account. The weight of opinion within the Committee was to the effect that the Management of the Account should not act hastily to counteract temporary bulges in reserves that might result from the action on vault cash, particularly since previous experience suggested that it might take some little time for the newly available reserves at banks located outside of central reserve and reserve cities to find their way into the money market. The rather general hope continued to be expressed that System open market operations could be so conducted as not to contribute to any significant reduction of short-term market rates below prevailing levels.

The directive to the New York Reserve Bank, which provided for encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, while taking into consideration current international developments, was renewed except that the latitude for increasing or decreasing the portfolio of the System Account, which at the preceding meeting had been raised to $1.5 billion, was restored to the customary figure of $1 billion.

Votes for this action: Messrs. Martin, Balderston, Bopp, Bryan, Fulton, King, Leedy, Mills, Robertson, Shepardson, Szymczak, and Treiber. Votes against this action: none.

December 13, 1960

Authority to effect transactions in System Account.

The slowing of the downward drift of economic activity suggested by some October statistics had now proved to be clearly temporary as subsequently available evidence revealed further mild contraction in November and early December. The labor market had weakened further, and industrial production in November fell to a point about 5 per cent below the peak reached in the second quarter of the year. New orders for durable goods declined, order backlogs were further reduced, and inventory liquidation was sizable, while retail sales showed little change from the October level. According to a survey that had recently become available, business outlays for plant and equipment decreased in the third quarter of the year and business plans indicated additional decline in the fourth quarter.

The demand for bank loans, especially business loans, continued to be slack in November, and the money supply was down sharply. The decline in the U.S. gold stock in November had been about $500 million, reflecting continued outflows of capital and some purchases of gold by smaller countries to increase the gold proportion of their reserves.

It was agreed by the Committee that ample reserves should be available in the market to meet seasonal credit needs and any revival in credit demands, and to compensate for the outflow of gold. In view of the persistent downward drift of domestic economic activity and in light of the monetary contraction that occurred in November following the rise in October, some Committee members were inclined to feel that a moderately greater degree of ease than had prevailed recently should be sought, and at least one urged an increase in the volume of bank reserves even if the level of short-term interest rates were to decline. It was the majority view, however, that a continuation of the current degree of ease would be the preferable objective. This view reflected the feeling that, at a time when signs of cyclical revival in credit demands were not more definite, little would be accomplished by supplying reserves more liberally, that action to supply additional reserves might serve only to accentuate the difficulty of open market operations after the turn of the year, and that, because of the continuing balance-of-payments deficit, it would be desirable if short-term interest rates, including the Treasury bill rate, were to continue at about prevailing levels. For similar reasons, one member of the Committee expressed the view that a moderate move away from the degree of ease of the past few weeks might be appropriate.

Accordingly, the policy directive calling for the encouragement of monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, while taking current international developments into consideration, was again renewed.

> Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Bryan, Fulton, King, Leedy, Mills, Robertson, Shepardson, and Szymczak. Votes against this action: none.

* * *

As indicated by the foregoing record, the policy directive of the Federal Open Market Committee in effect at the beginning of 1960 was aimed at restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities. For reasons set forth in the record, the directive was changed four times in the course of the year. On March 1, the directive was revised to provide that transactions should be undertaken with a view to fostering sustainable growth in economic activity and employment while guarding against excessive credit expansion. The next change, made on May 24, provided that open market operations should seek to foster sustainable growth in economic activity and employment by providing reserves needed for moderate bank credit expansion. On August 16 the directive was revised so as to call for encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment. The final change,

made on October 25, added the words "while taking into consideration current international developments." In addition to the changes during the year in the language of the directive, there were occasions, as indicated in the entries for the respective meetings, when the directive was issued subject to certain understandings with regard to the manner in which open market operations were to be conducted.

The directive in effect at the end of 1960 instructed the Federal Reserve Bank of New York in the same terms as the directive quoted on page 35 of this Report, except that clause (b) of the first paragraph directed that transactions be with a view, among other things, "to encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, while taking into consideration current international developments."