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 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 is an entry with respect to the policy actions taken at each of the 18 meetings of the Federal Open Market Committee during the calendar year 1961, including the votes on the policy decisions as well as a résumé 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 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. The directive that was in effect at the beginning of 1961 instructed the New York 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 encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, while taking into consideration current international developments, 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 10, 1961

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 13, 1960, calling for operations with a view to encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, while taking into consideration current international developments.

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

The downward drift that had characterized economic developments since the summer of 1960 continued in December. While there were no signs of accelerating downward momentum, neither was there evidence of a revival near at hand, and a further contraction of modest proportions seemed to be the most likely prospect for the near future. Preliminary estimates indicated that gross national product had held about even in the fourth quarter of 1960, but that industrial production was off 1 or 2 points in December from the November level, bringing the decline from July to around 6 per cent. Unemployment rose, with indications that further increases were likely, while prices of sensitive materials continued to decline and the average of all wholesale prices also drifted down a little. Total retail sales, seasonally adjusted, had also fallen off in December, reflecting primarily a softening of automobile sales. However, the downdrift that the economy had been experiencing was milder than during comparable recession phases of other postwar cycles, and it appeared possible that manufacturers of most products had about completed their inventory adjustments, particularly as to raw materials and goods in process.

There was continuous ease in the money market during the 4 weeks preceding this meeting, as evidenced by a Federal funds rate averaging substantially below the discount rate and a further decline in borrowing at the Federal Reserve Banks. Bank credit in December showed a strong rise, with much of the strength attributable to borrowing by financial institutions and business concerns around the mid-December tax and dividend payment dates. The money supply, defined to include currency in circulation and privately held demand deposits, showed a modest increase in December; most of the deposit increase recently had been in the time category. Prospects were that the sizable amounts of reserves released in late December and early January by seasonal decreases in required reserves and currency in circulation would be partly offset by declines in float and a continued gold outflow. During the first week in January, gold outflow was at the rate of $130 million.

Although available reports suggested that the U. S. balance of trade was showing some improvement, the over-all balance of payments continued to pose a serious problem for the international strength of the dollar.

Taking all of these factors into consideration, it was the consensus of the Committee that in view of the state of the domestic economy the System should seek to maintain approximately the same amount of ease in the market as it had since the preceding meeting, at the same time paying close attention to developments in the international area. There was a minority view favoring greater ease in order to do what was possible to reverse the trend of the economy in this country. There were, on the other hand, some who believed that the System should "mop up" more of the ease that had prevailed, it being argued that the System had injected sufficient credit into the market and should concern itself more at this point with endeavoring to assure a short-term interest rate level conducive to checking the outflow of funds and possibly reversing it.

January 24, 1961

Authority to effect transactions in System Account.

The Federal Open Market Committee directed the Federal Reserve Bank of New York to continue to conduct open market operations with a view toward encouragement of monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, while taking into consideration current international developments.

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

The decline in economic activity was continuing, with no discernible signs of a bottom having been reached. There was evidence of a continued rise in seasonally adjusted unemployment figures, and declines in employment and in industrial production were rather general. A further weakening in personal income and retail sales, along with a sharp drop in housing

starts during December, had also contributed to the decline. However, some encouraging developments were beginning to appear in the economic picture, including a continued large export surplus, signs of greater availability of mortgage money, though this had not yet led to noticeably lower interest charges or to expansion in residential construction, and slight signs of pick-up in steel production and orders.

There was ample evidence of continuing money market ease. However, after taking into account the usual seasonal patterns, bank credit developments during the first part of January were somewhat mixed. Bank loan-deposit ratios, while still relatively high by historic standards, had declined somewhat. Also, while there had been only a modest gain in the money supply proper during the second half of 1960, total nonbank liquid assets had risen at a rate almost equal to the average for the last 10 years.

A delicate situation existed in international financial markets, stemming mainly from the continued U. S. balance of payments deficit, and this created something of a dilemma for monetary policy. The problem was one of providing sufficient reserves to the banking system to encourage growth of the domestic economy, which was operating at a relatively low level, while endeavoring to prevent short-term rates from declining to levels that might aggravate the already sizable payments deficit of the United States. The consensus as to policy for the period immediately ahead was that there should be no change in the existing degree of monetary ease and that in operating the Open Market Account the Management should continue to give close attention to the level of short-term rates in view of the current international financial situation. However, at least one member of the Committee (Mr. Robertson) favored a moderately greater degree of ease, in view of the level of domestic economic activity.

February 7, 1961

1. Authority to effect transactions in System Account.

The Committee's directive to the Federal Reserve Bank of New York, calling for the encouragement of monetary expan-

sion for the purpose of fostering sustainable growth in economic activity and employment, while taking into consideration current international developments, was continued without change.

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

There appeared to have been little or no improvement in the levels of output, employment, and trade since the preceding meeting. Although steel mill operations were up slightly from the depressed December levels, automobile assemblies had slipped further, and it seemed likely that the industrial production index would show a further decline of 1 point for January. Long-term unemployment continued to increase, and there was no significant change in the seasonally adjusted rate of total unemployment. Lagging automobile sales and department store sales, reflecting in part severe weather conditions in many areas, had pulled down total retail trade. While there were some signs of a leveling off or bottoming out in a few economic sectors, none of them seemed poised for a rapid upward surge. Nevertheless, there appeared to be a continued optimistic sentiment in business and financial markets.

Total loans and investments of banks appeared to have declined less than seasonally in January, largely a reflection of banks continuing to add to their holdings of U. S. Government securities. The bulk of these additions were in shorter-term issues, mainly Treasury bills, and this growth, together with other factors, had improved the liquidity of the banking system. The seasonally adjusted money supply increased substantially in the latter part of January after dipping somewhat in the first half, and preliminary data indicated that by the beginning of February the money supply was above the year-earlier level. Demand deposits, which ordinarily fall in January, fell less than usual for the month, and time deposits continued to show sizable gains. Member bank reserve positions continued relatively easy on average during January, although they showed wide week-to-

week fluctuations. In general, indications were that the reserves supplied in recent months had permitted or perhaps encouraged monetary expansion relative to the usual seasonal pattern without having depressive effects on the Treasury bill rate.

The gold outflow had declined in January from the December and November 1960 levels. While the rate was still high, it was felt that short-term balance of payments forces were working toward some reduction in the rate of outflow.

The consensus of the Committee favored no change in open market policy, with the Treasury bill rate to be watched closely in conjunction with market needs for reserves. However, within the framework of the directive, which was broad enough to encompass his own position, one member (Mr. Robertson) felt that open market policy should be aimed toward providing a more ample supply of reserves in order to enable the banking system to make what contribution it could toward reversing the downward economic trend. This member suggested that, as the economy began to move upward, interest rates would rise and the current outflow of capital, to the extent that it was based on interest rate differentials, would be reversed.

2. Authority to effect transactions in intermediate- and longer-term securities.

The Federal Open Market Committee authorized the Federal Reserve Bank of New York, between this date and the next meeting of the Committee, within the terms and limitations of the policy directive issued at this meeting, to acquire for the System Open Market Account intermediate- and/or longer-term U. S. Government securities having maturities up to 10 years, or to change the holdings of such securities, in an amount not to exceed $500 million.

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

The Committee's decision to authorize transactions in intermediate- and longer-term securities reflected a conclusion that

under prevailing circumstances such transactions might facilitate the implementation of current monetary policy. This policy called for providing reserves to the banking system to meet the needs of the current business situation and also for avoiding direct downward pressure on short-term interest rates or not resisting any tendency for them to rise, in view of the relationship of short-term rates to the balance of payments problem. While maintenance of the Treasury bill rate could possibly be accomplished by reducing the availability of reserves to the banking system, this would be inconsistent with one of the current objectives of monetary policy. On the other hand, the purchasing of securities in the intermediate- and longer-term areas, as contrasted with the short-term area, offered the possibility of supplying reserves without creating direct pressure on short-term rates. Also, such purchases, by having a moderating influence on long-term interest rates relative to short-term rates, might have the effect of facilitating the flow of funds through the capital and mortgage markets, thereby encouraging the progress of recovery. Accordingly, the combination of domestic and international circumstances confronting the Committee seemed to call for a high degree of flexibility in open market operations. While some members of the Committee were uncertain as to the feasibility of attaining the aforementioned policy objectives through the increased flexibility provided by operating in intermediate- and longer-term securities as well as short-term securities, the Committee believed that a determined effort was warranted. However, it was understood that it would not be the objective to seek a given fixed rate for Government securities of any maturity.

Also, there had been a great deal of controversy in recent years as to the efficacy of the System's policy of operating exclusively in the short-term area of the market. Inherent in this controversy was an apparent feeling that the System was maintaining an unduly rigid attitude in the position it allegedly took toward its own operating procedures and policies. The entire

issue of the proper techniques for conducting System open market operations had become one of conceptual contention. It was felt by the Committee that the conduct of operations outside the short-term sector of the Government securities market might contribute to determining whether the criticisms of the System's policy of confining its open market operations to short-term securities, except in the correction of disorderly markets, was warranted. Likewise, it was envisaged that the procedure might throw some light on the possibility of influencing longer-term rates while maintaining the short-term rate level.

The initial entry into the market under the program agreed upon by the Committee contemplated moderate purchases in the 1- to 5½-year maturity range. Then, after the market had become accustomed to the change in System open market procedures, it was contemplated that the Manager of the System Open Market Account would undertake operations in the 5½- to 10-year maturity range. However, all open market operations under the special authorization were to be consistent with the monetary policy set forth in the Committee's current policy directive. (At this particular time the directive called for encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, while taking into consideration current international developments.) The amount by which the Account's holdings of intermediate- and longer-term securities could be changed between this date and the next meeting of the Committee, i.e., $500 million, was part of the $1 billion limitation contained in the policy directive.

The Committee's action represented a departure from certain policies set forth in its operating policy statements, which were last reaffirmed on March 22, 1960, not only because it authorized operations in intermediate- and longer-term securities but also because it permitted "offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System portfolio." Within the terms of the policy directive it was possible, for example, that short-term interest rate considerations might suggest the sale of short-term securities at a time

when the System did not want to absorb reserves. In such a circumstance, it might be expedient to buy longer-term securities simultaneously with the sale of shorter-term securities or to make offsetting transactions within an interval of a few days.

Mr. Robertson, in dissenting from this action, expressed the opinion: (1) that the established operating procedures and policies of the Committee were, in fact, the product of careful empirical and analytical study; (2) that they had proved in practice to be sound, both in terms of monetary policy and in terms of fair dealing with the market; (3) that in deviating from its established policies the Federal Open Market Committee was in effect asserting, without reason, that it had made a critically incorrect judgment 8 years ago and had pursued incorrect operating practices since; and (4) that critics of present methods of operating in the market were relying on the simplest theories of determination of market interest rates and making allegations on postulates having little if any basis in empirical fact. In his opinion this departure from established operating techniques would not constructively influence market rates, and he gathered from the discussion that not many (if any) at the table were confident of such a result. What he was confident of, however, was that the Committee was running serious risk (a) of undermining domestic and foreign confidence in the System's integrity and judgment and the reliability of the new Administration's assertions of an intent to maintain the stability of the dollar, (b) of impairing the market for Government securities by placing dealers and investors in the position of having to guess which area of the market the Federal Reserve was going to enter and hence affect prices, and (c) of impeding Government financing by making it extremely difficult for the Treasury to determine objectively appropriate market rates for future intermediate- and long-term financing. It was his view that these risks were too large to run.

In addition, Mr. Robertson believed it to be inadvisable for the Committee virtually to abdicate its authority and responsibility by giving practically unlimited authority to the Manager

of the Open Market Account (1) to buy and sell securities in any area of the market up to 10 years, as he saw fit, for the stated purpose of affecting rates as distinguished from providing or withdrawing reserves from the banking system, and (2) to engage in "swap" transactions—i.e., buying securities in one maturity area and selling in another—to effect changes in rates and hence marshal the System's portfolio of Government securities against market forces.

Note: On February 20, 1961, the date of initial operations in the longer-term Government securities market, the Account Manager, at the direction of the Chairman of the Open Market Committee, issued the following press statement:

The System Open Market Account is purchasing in the open market U. S. Government notes and bonds of varying maturities, some of which will exceed 5 years.

Price quotations and offerings are being requested of all primary dealers in U. S. Government securities. Determination as to which offerings to purchase is being governed by the prices that appear most advantageous, i.e., the lowest prices. Net amounts of all transactions for System Account will be shown as usual in the condition statements issued every Thursday.

During recent years transactions for the System Account, except in correction of disorderly markets, have been made in short-term U. S. Government securities. Authority for transactions in securities of longer maturity has been granted by the Open Market Committee of the Federal Reserve System in the light of conditions that have developed in the domestic economy and in the U.S. balance of payments with other countries.

March 7, 1961

1. Authority to effect transactions in System Account.

The Federal Reserve Bank of New York was directed by the Committee to continue to conduct open market operations with a view toward encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, while taking into consideration current international developments.

Votes for this action: Messrs. Martin, Hayes, Allen, Balderston, Irons, King, Mills, Robertson, Shepardson, Swan, Szymczak, and Wayne. Votes against this action: none.

A review of national and regional economic developments indicated that the recession seemed to have lost momentum. Among the more favorable economic signs was an indication that gross national product would be down only moderately in the first quarter of the year—possibly by less than 1 per cent. Industrial production had apparently leveled off in February, and it appeared unlikely that there would be a decline in March; inventory liquidation also seemed to have leveled off. According to recent surveys, plans for business capital expenditures indicated a small rise from the first half of the year to the second, and the total of planned expenditures, when compared with 1960, was down only about 3 per cent. Consumer expenditures and buying intentions also were interpreted as generally optimistic, despite some continued weakness in expressed intentions to buy houses and household durables. As against these indications of a possible turnaround in economic activity, the continuing lag in automobile sales and the persistence of a high level of unemployment and unutilized resources were of concern.

Statistics on bank credit and bank reserves were considered encouraging. Total loans and investments at weekly reporting member banks recorded a sizable gain in February, total reserves of all member banks on a seasonally adjusted basis rose substantially in February to surpass the 1960 high set in November, and required reserves, adjusted, reached a record high in February. It was anticipated that around mid-March, when large tax payments were due, there would be substantial liquidity needs, with the result that reserves of member banks would be under considerable pressure. Therefore, if the existing money market ease was to be maintained, the System might have to supply additional reserves, reabsorbing them possibly in the latter part of the month.

Preliminary statistics indicated that there had been a virtual cessation of the outward flow of short-term capital in January

and February. However, an atmosphere of uncertainty had arisen in international money markets following the German and Netherlands currency revaluations, and there was the possibility that the improved situation could reverse itself quickly.

The consensus of the Committee was that the existing monetary policy of ease should be followed until the next meeting. Considering the problem of unemployment and the continued uncertainties in the business situation, it was felt that the System should encourage credit expansion as a means of fostering economic recovery. On the other hand, since the balance of payments situation had not been fundamentally corrected, it was also felt that consideration should continue to be given to short-term interest rates in the conduct of open market operations. There were some variations in opinion within the Committee concerning whether the current degree of ease was sufficient to stimulate the economy and concerning the degree of emphasis that should be placed on the desirability of counteracting influences tending to depress short-term interest rates.

2. Authority to effect transactions in intermediate- and longer-term securities.

The Federal Reserve Bank of New York was authorized, between this date and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate- and/or longer-term U. S. Government securities having maturities up to 10 years, or to change the holdings of such securities, in an amount not to exceed $500 million.

Votes for this action: Messrs. Martin, Hayes, Balderston, Irons, King, Mills, Shepardson, Swan, Szymczak, and Wayne. Votes against this action: Messrs. Allen and Robertson.

This special authorization, first given at the Committee meeting on February 7, 1961, was extended subject to the original understanding that all operations under it were to be consistent

with the general monetary policy expressed in the Committee's directive.

Mr. Allen voted against this action for the reasons he had given at the meeting of the Federal Open Market Committee held on February 7, 1961. (At that time Mr. Allen was not a member of the Committee, but as an alternate member he was asked to express his opinion on the proposed extension of operations. He had opposed the extension, saying that after reviewing a quantity of material on the subject—including the report of an Ad Hoc Subcommittee of the Federal Open Market Committee dated November 12, 1952, testimony by Chairman Martin before various congressional committees, and a number of treatises written by professional economists—and considering it also in the light of his own experience, he did not favor the proposed extension of operations.) Mr. Allen indicated that he was in substantial agreement with the reasons for opposing the action that were stated by Mr. Robertson at the meeting on February 7, 1961.

Mr. Robertson dissented from this action for the reasons that he had stated at the meeting on February 7, 1961, when the special authorization was first given.

3. Review of continuing authorities and statements of policy.

This being the first meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks for the year beginning March 1, 1961, the Committee had scheduled for review the statements of continuing operating policies that had been in effect since 1953 and were last reviewed and reaffirmed on March 22, 1960, 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.

At the meeting on January 10, 1961, an Ad Hoc Subcommittee of the Open Market Committee had been named for the purpose of pursuing certain studies of the Committee's operating procedures, along lines to be indicated by Chairman Martin. One subject to which that Subcommittee had devoted considerable attention was a possible revision of the statements of operating policies. However, after discussion at this meeting the Committee decided, pursuant to the recommendation of the Subcommittee, to table consideration of possible changes in the operating policy statements pending further study in the light of the authorization given at the meeting on February 7, 1961, and reaffirmed at this meeting, covering operations in intermediate- and longer-term securities.

Votes for this action: Messrs. Martin, Hayes, Allen, Balderston, Irons, King, Mills, Robertson, Shepardson, Swan, Szymczak, and Wayne. Votes against this action: none.

At this meeting the Committee also reviewed and reaffirmed all of its continuing authorities for operations, including those referred to in the two succeeding policy record entries.

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

The Committee reaffirmed the existing authorization to the Federal Reserve Bank of New York to enter into repurchase

agreements with nonbank dealers in U. S. Government securities —an authorization that had been reaffirmed by the Committee each year since it was first granted in this form on August 2, 1955. The authorization, which continued to be subject to the understanding that repurchase agreements at rates below the discount rate would be used only sparingly, specified the following conditions:

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, Allen, Balderston, Irons, King, Mills, Shepardson, Swan, Szymczak, and Wayne. Vote against this action: Mr. Robertson.

In dissenting from this action, Mr. Robertson reiterated the opinion that repurchase agreements were in fact not purchases of securities in the open market, such as the Reserve Banks were authorized by law to enter into, but instead were loans to dealers at fixed interest rates that were not related to the yield on the securities. Therefore, they should be used only as a last resort to finance dealers who were unable to obtain loans at reasonable

rates from others in order to aid them in maintaining an adequate market for Government securities. Furthermore, he was of the opinion, for reasons he had stated many times during the past 8 years, that nonbank dealers should not be given preferential treatment by being furnished loans from the Federal Reserve Bank of New York at lower rates than member banks were obliged to pay for loans from the same Reserve Bank.

The majority of the members of the Committee continued to feel that the repurchase agreement was an appropriate instrument that had proved of significant value to the Federal Reserve System in carrying out monetary policy. Therefore, they concluded that its use should not be restricted and that the authorization should not be changed to preclude the opportunity, if and when that was provided for under the authorization and appeared desirable, of using a rate lower than the discount rate.

5. Purchases of bankers' acceptances, and repurchase agreements based thereon.

The Committee reaffirmed the existing authorization to the Federal Reserve Bank of New York to purchase bankers' acceptances and to enter into repurchase agreements therefor—an authorization that, with minor changes, had been reaffirmed by the Committee each year since it was first granted in 1955. The authorization read as follows:

The Federal Open Market Committee hereby authorizes the Federal Reserve Bank of New York for its own account to buy from and sell to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, at market rates of discount, prime bankers' acceptances of the kinds designated in the regulations of the Federal Open Market Committee, at such times and in such amounts as may be advisable and consistent with the general credit policies and instructions of the Federal Open Market Committee, provided that the aggregate amount of such bankers' acceptances held at any one time by the Federal Reserve Bank of New York shall not exceed $75 million, and provided further that such holdings shall not be more than 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.

The Federal Open Market Committee further authorizes the Federal Reserve Bank of New York to enter into repurchase agreements with nonbank dealers in bankers' acceptances covering prime bankers' acceptances of the kinds designated in the regulations of the Federal Open Market Committee, subject to the same conditions on which the Federal Reserve Bank of New York is now or may hereafter be authorized from time to time by the Federal Open Market Committee to enter into repurchase agreements covering U.S. Government securities, except that the maturities of such bankers' acceptances at the time of entering into such repurchase agreements shall not exceed 6 months, and except that in the event of the failure of the seller to repurchase, such acceptances shall continue to be held by the Federal Reserve Bank or shall be sold in the open market. Such repurchase agreements shall be at the same rate as that applicable, at the time of entering into such agreements, to repurchase agreements covering U.S. Government securities.

Votes for this action: Messrs. Martin, Hayes, Allen, Balderston, Irons, King, Mills, Shepardson, Swan, Szymczak, and Wayne. Vote against this action: Mr. Robertson.

In voting against the continuation of the authority, Mr. Robertson stated that he felt the Federal Reserve System should encourage the utmost freedom of market forces and therefore should withdraw from active participation in the acceptance market in the absence of clear indication that such participation would yield specific public interest benefits. He was not aware of evidence that such benefits had been realized since the authorization was given to the Federal Reserve Bank of New York in 1955. He opposed the use of repurchase agreements covering bankers' acceptances not only for these reasons but also for the reasons he had expressed in opposing the use of repurchase agreements covering Government securities.

In support of the majority position favoring reaffirmation of the authorization, it was stated that the Federal Reserve System had taken an active interest in promoting and assisting the acceptance market since the inception of that market, that the System had a legitimate interest in doing its part to make that market as broad and as sound as possible, and that acceptances were inherently a desirable medium for operations by a central bank.

March 28, 1961

1. Authority to effect transactions in System Account.

The Federal Open Market Committee directed the Federal Reserve Bank of New York to continue to conduct open market operations with a view to encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, while taking into consideration current international developments.

Votes for this action: Messrs. Martin, Hayes, Allen, Balderston, Irons, King, Mills, Robertson, Shepardson, Swan, Szymczak, and Wayne. Votes against this action: none.

Additional information on economic developments in February that had become available since the previous Committee meeting tended generally to confirm the estimates presented at that time. While the prevailing tone of growing business optimism might be considered somewhat premature, nevertheless there were further indications that the economy was at least close to a bottoming out of the recession. Several key economic series that previously had been falling for some time had now either leveled off or turned upward. These included such items as new orders for durable goods, manufacturers' sales of durable goods, industrial production, and retail sales. In addition, the relatively small prospective decline from 1960 in business plant and equipment expenditures was encouraging; and housing starts, at a seasonally adjusted annual rate, had risen from the December low, although they still remained below the year-earlier level. While employment had risen in February to a level above a year earlier, the rate of unemployment increased slightly and the actual number of unemployed attained a postwar peak.

The money market had been generally easy in the past 3 weeks, a period when more tightness might ordinarily have been expected in view of the midmonth tax date. Total loans and investments at city banks declined during the first part of March. Although business loans increased about as much as usual, loans to finance companies showed a contraseasonal decline, and loans

to dealers in Government securities also declined by a sizable amount. City bank holdings of Treasury bills and of Government securities maturing after 1 year fell, while holdings of other securities increased. The money supply, which increased sharply in January, had shown little further growth since the early part of February, and the daily average for the first half of March was only slightly larger than a year earlier.

Data now available indicated that, whereas an improvement in the over-all balance of payments occurred in January, with a $100 million surplus for that month, in February there may have been a deficit of some $200 million. There was also some evidence that this adverse trend had continued in March, in part as a result of repercussions from the German currency revaluation. Therefore, since the atmosphere in international financial markets remained delicate, the short-term interest rate continued to be an important factor in the formulation of System open market policy.

After consideration of the range of economic and financial information that had been accumulated, it was the consensus, from which Messrs. Balderston, Robertson, and Swan dissented, that until the next meeting of the Committee the policy directive should be implemented by open market operations seeking to maintain about the existing degree of ease.

Mr. Balderston dissented because he felt that with the gold outflow stopped, at least for the moment, the Committee should experiment with an increased availability of reserves until the money supply responded more vigorously. The extent to which additional reserves would be needed for that purpose could be determined only by probing operations, which in his view should be started. While this probing was under way, he recognized that the short-term rate might decline despite the support available from factors such as the increased supply of bills being offered by the Treasury. Since he did not wish to see the bill rate decline significantly in view of the continuing balance of payments problem, he felt that the Committee should continue to employ whatever devices were available to avoid undue pressure on that

rate. However, it seemed to him that the time had arrived to risk some decline in short-term rates in view of the importance he attached to stimulating the growth of the money supply. If the cyclical bottom had been reached, he pointed out, the economy should be prepared to put additional reserves to constructive use.

Mr. Robertson dissented from the decision to maintain, until the next meeting, the existing degree of ease. At the past several meetings, as at this one, he had voted to approve the policy directive on the ground that it correctly specified that open market operations should be conducted with the aim of encouraging monetary expansion. However, in the last few months the degree of ease which he thought appropriate to achieve the aim of the directive, and which he thought had been sought by the Committee, was not reached principally, in his opinion, because too much emphasis had been attached to seeking to prevent a reduction in the interest rate (i.e., yield) on short-term Government bills. Consequently, in his view monetary policy had been precluded from making its full contribution to a reversal of the economic downtrend. Now that the gold outflow had abated, Mr. Robertson believed there was even less reason than heretofore to gear open market action to the maintenance of a particular bill rate rather than to the provision of what he would think were sufficient bank reserves to stimulate business activity and economic growth, and thus contribute to the solution of the serious economic problems that arise from failure to utilize fully our human and material resources. Believing as he did that the supply of bank reserves should be increased to encourage monetary expansion and thereby to promote economic recovery, at a time when there was little danger of reviving inflationary pressures by such further ease as he sought, he deemed the proposed policy decision inadequate to meet the needs of the time.

Mr. Swan dissented from the decision on implementation of the directive because it did not contemplate probing toward the higher level of reserves mentioned by Mr. Balderston. In view of current developments, he felt that the System might be in a position to increase the availability of reserves somewhat with-

out undue downward pressure being exerted on the short-term rate.

2. Authority to effect transactions in intermediate- and longer-term securities.

The Committee authorized the Federal Reserve Bank of New York, between this date and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate- and/or longer-term U. S. Government securities, or to change the holdings of such securities, in an amount not to exceed $500 million.

Votes for this action: Messrs. Martin, Hayes, Balderston, Irons, King, Mills, Shepardson, Swan, Szymczak, and Wayne. Votes against this action: Messrs. Allen and Robertson.

This action amended the special authorization first given at the meeting on February 7, 1961, by removing the restriction that had limited transactions to securities with a maturity of not more than 10 years, this removal having been recommended by the Ad Hoc Subcommittee that had been named at the meeting on January 10, 1961, to study and make recommendations with respect to the Committee's operating procedures. It was felt that the removal of the restriction on maturities would, by increasing the flexibility of Account operations, facilitate the evaluation of the feasibility and effect of System operations in other than the short-term market. The Ad Hoc Subcommittee also recommended, and the Committee agreed, that it would be desirable to take more time, during which the experience in operating in all maturities could be studied, before deciding on any possible revision of the Committee's operating policy statements.

Mr. Allen voted against continuing the special authorization on the same basis that he had previously dissented at the March 7 meeting. However, inasmuch as the authorization to operate in longer-term securities was being continued by majority vote, he did not object to the removal of the restriction against operating in maturities beyond 10 years.

Mr. Robertson had expressed at the February 7 meeting his reasons for dissenting from the proposals to carry on open market operations in other than short-term Government securities. He now dissented from the action to expand the original proposal not only on the basis of his conviction that the whole operation was unwise—the risks being too great to be offset or counterbalanced by the alleged potential benefits—but also because this proposal represented a further delegation of authority by the Committee to the Manager of the System Open Market Account without any plan or program to guide him in his operations. He did not believe that the Manager could be expected to carry out the Committee's unspecified objectives—whatever they were—solely on the basis of his own intuitions.

April 18, 1961

1. Authority to effect transactions in System Account.

At this meeting clause (b) of the first paragraph of the Committee's policy directive to the Federal Reserve Bank of New York was changed to provide that open market operations should be conducted with a view "to encouraging expansion of bank credit and the money supply so as to contribute to strengthening of the forces of recovery that appear to be developing in the economy, while giving consideration to international factors." The preceding directive, which had been in effect since October 25, 1960, called for operations with a view to encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, while taking into consideration current international developments.

Votes for this action: Messrs. Hayes, Allen, Balderston, Irons, King, Mills, Robertson, Shepardson, Swan, and Wayne. Votes against this action: none.

For some time open market policy had aimed at making a contribution toward arresting recessionary influences in the domestic economy, at the same time giving due regard to the level of short-term interest rates in view of problems related to the

continuing deficit in the U. S. balance of payments. However, confirmation of a bottoming out of the recessionary phase of the business cycle had been gradually emerging. Statistical information suggested increasingly that the low point had been passed and that an upturn was in the making, although evidence of the prospective strength of the expansion was as yet lacking.

Data before the Committee showed that economic gains in March were moderate and that activity in some sectors had, in fact, continued to drift downward. Nevertheless, a number of key indicators showed significant improvement, after allowing for the usual seasonal influences. Among other things, personal income increased at an annual rate of $3.5 billion, housing starts were up for the third consecutive month, automobile sales strengthened, and exports appeared to be holding at unusually high levels. Although the level of unemployment continued to present a serious problem, particularly in certain areas, initial unemployment compensation claims recently had declined more than seasonally, and there were other signs of improvement in the labor market.

On the financial side, no significant changes in either the level or structure of interest rates had occurred since mid-March, most rates having remained a little above the lowest levels and well below the highest levels of the current calendar year. Total bank loans and investments had declined since the middle of March, perhaps more than seasonally. However, the money supply, defined in terms of demand deposits and currency, increased in the latter part of March and had since been maintained at the higher level then reached. In addition, holdings by the public of time deposits and comparable liquid assets continued to expand. The schedule of new corporate capital issues for April was heavy, and State and local government offerings continued reasonably large. Common stock prices had risen to record levels, with heavy trading, and stock market credit had expanded significantly.

The relatively high levels of unutilized human and physical resources continued to be of concern and suggested that there

was little prospect of serious inflationary pressures. The country's international financial position remained in moderate deficit, although gold movements in and out of U. S. monetary stocks had recently been negligible.

The change in the Committee's policy directive was deemed appropriate in recognition of the new phase of the business cycle into which the nation's economy appeared to have entered, even though the configuration of the recovery could not as yet be forecast. As to monetary policy, the pattern that the Committee had been following in the past few months still appeared suitable, and revision of the directive carried with it no intent to modify open market policy in any significant respect at this stage. For the period until the next meeting, it was the consensus that the directive should be implemented by open market operations aimed at maintaining approximately the same degree of ease that had prevailed for the past several weeks. In the majority view, such a degree of ease would serve to promote the objective, as stated in the directive, of encouraging the expansion of bank credit and the money supply. Because of the continuing uncertainties in regard to the balance of payments, the consensus also contemplated that attention would continue to be paid to the general level of short-term interest rates.

Three members of the Committee, Messrs. Balderston, Robertson, and Swan, dissented from the majority view on implementation of the directive. Mr. Balderston, who 3 weeks earlier had suggested probing toward a somewhat greater availability of reserves in order to encourage further expansion of the money supply, felt that despite the gain since mid-March a longer period was required to permit a conclusion that the money supply was rising fast enough to provide adequate liquidity. Thus, being uncertain whether the current level of reserves was sufficient to induce a satisfactory expansion in the money supply, he continued to favor moving the level of reserves somewhat higher. Mr. Swan also continued to feel that it would be desirable in current circumstances to follow a slightly easier reserve policy whenever market opportunities arose. Mr. Robertson felt that to

continue to supply reserves only in the amounts that had been available in recent weeks would not be adequate to encourage or support credit and monetary expansion conducive to an early return to fuller utilization of human and material resources. He believed the risk that additional reserves might cause a decline in short-term rates and encourage a movement of funds from this country, with an accompanying loss of gold, was likely to be much less than it had been in the past.

2. Authority to effect transactions in intermediate- and longer-term securities.

The Federal Reserve Bank of New York was authorized, between this date and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate- and/or longer-term U. S. Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.

Votes for this action: Messrs. Hayes, Balderston, Irons, King, Mills, Shepardson, Swan, and Wayne. Votes against this action: Messrs. Allen and Robertson.

Renewal of this special authorization, first granted on February 7, 1961, and amended on March 28 to permit operations in U. S. Government securities of all maturities, reflected the conclusion of the Committee that further operations outside the short-term market in pursuance of the objectives stated when the authorization was granted would be desirable. Messrs. Allen and Robertson dissented for reasons they had previously expressed.

May 9, 1961

1. Authority to effect transactions in System Account.

The Federal Open Market Committee made no change at this meeting in its policy directive providing that open market operations should be conducted with a view to encouraging expansion of bank credit and the money supply so as to contribute to

strengthening of the forces of recovery that appeared to be developing in the economy, while giving consideration to international factors.

Votes for this action: Messrs. Hayes, Allen, Balderston, Irons, King, Mills, Robertson, Shepardson, Swan, and Wayne. Votes against this action: none.

From data presented at this meeting, economic recovery appeared to be proceeding more rapidly than had generally been anticipated, and at least as fast as the more optimistic forecasts had predicted it would. All available evidence pointed toward an increase in gross national product during the second quarter of the year. Preliminary data indicated that the Board's industrial production index for April would be up 3 points from the first quarter low of 102. In addition, schedules for steel and automobile production seemed virtually to assure some further rise in the index during May—perhaps enough to erase at least half of the 8-point decline from 110 in July 1960. Retail sales during April had been demonstrating strength, including sales of domestically produced automobiles, which had risen sharply in March from the depressed midwinter level. Dealer stocks of automobiles, which had been brought down somewhat in March from the relatively high levels that prevailed during the past year, had fallen further, and used car stocks were down sharply from a year earlier. Latest information regarding plant and equipment expenditure plans for 1961 indicated a decline of only 1 per cent from 1960, an improvement over indications of similar surveys made earlier in this year and in the fall of 1960. In the price area, consumer and wholesale prices generally had been stable, while sensitive commodities had moved up. On the other hand, in spite of the apparently growing strength of the economy, seasonally adjusted unemployment in April remained at about the midwinter high.

In the financial area, short-term interest rates declined somewhat in April and early May, while intermediate- and long-term rates showed marked declines except in the corporate market, where there had been an unusually large volume of new financ-

ing. Credit expansion continued during April and early May, but at only a moderate pace. The privately held money supply—defined as demand deposits and currency—increased moderately, the expansion seemingly stemming from an exceptionally large decrease in Treasury deposits. Owing to special factors, reserves were available to banks in somewhat larger volume during April than in March, despite a sizable reduction in the System portfolio, resulting in a somewhat easier tone in the money market than had been contemplated at the April 18 meeting of the Committee. Early in May, market factors absorbed some of these reserves.

The outflow of gold from the United States had virtually ceased during the past 2½ months, but private short-term capital movements outward had continued high during the first quarter of the year, and there was still an over-all deficit in the balance of payments, as conventionally measured, of about $1.5 billion (annual rate). The outflow of short-term capital continued despite a reduction in the differential between short-term rates in the United States and the higher rates available in most other important money markets.

In considering what policy should be followed until its next meeting, the Committee noted that, as mentioned previously, the tone of the money market during most of the period since the April 18 meeting was somewhat easier than had been contemplated at that meeting, largely because of unusual factors that included a high level of float. There was general recognition of the appropriateness of a policy of ease, but a majority felt that the ease had gone further than was desirable. As to interest rates, it was the majority view that it would be undesirable for the short-term rate to go lower, because of international considerations. Thus, the Committee renewed the existing directive without change, and the consensus was that operations for the System Account should be directed toward maintaining the same degree of ease that had prevailed in recent weeks, apart from the unusual ease that had developed during a portion of the period since the April 18 meeting.

Although all members voted to approve the Committee's directive without change, Messrs. Robertson and Swan dissented from the decision to implement the directive with operations aimed at the same degree of ease that had existed prior to the April 18 meeting rather than the greater degree of ease that had existed during most of the period since that date.

In dissenting, Mr. Robertson stated that it was his belief that the recent ease had promoted a turnaround in the money supply and brought about an increase in bank credit without unduly depressing yields on Government securities. The downswing in yields that had occurred was attributable more to the West German discount rate reduction and comments by persons outside the Federal Reserve System than to System open market operations. With the gold outflow apparently halted for the time being, and with inflationary pressures seemingly less dangerous just now than at any time in recent years, he believed that in order for the System to do its full part in stimulating recovery to more nearly satisfactory levels of production and employment, the degree of ease achieved during the past 3 weeks should not be diminished (and if anything, should be increased slightly) during the 4 weeks until the next meeting of the Committee.

Mr. Swan said that he dissented from the implementation of the directive with much more reluctance than at the previous two meetings. However, he saw no particular basis for change in the degree of ease actually achieved during the past 3 weeks and would continue a program of supplying reserves moderately in excess of seasonal needs to contribute to the expansion of bank credit and the money supply.

2. Authority to effect transactions in intermediate- and longer-term securities.

The Federal Reserve Bank of New York was authorized, between this date and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate- and/or longer-term U. S. Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.

Votes for this action: Messrs. Hayes, Balderston, Irons, King, Mills, Shepardson, Swan, and Wayne. Votes against this action: Messrs. Allen and Robertson.

The Committee in renewing this special authorization, first granted on February 7, 1961, and amended on March 28 to permit operations in U. S. Government securities of all maturities, concluded that further operations outside the short-term market in pursuing the objectives set forth in the directive would be desirable. Messrs. Allen and Robertson dissented for the same reasons they had stated previously.

June 6, 1961

1. Authority to effect transactions in System Account.

At this meeting, the Federal Open Market Committee, in directing that open market operations be with a view "to encouraging expansion of bank credit and the money supply so as to contribute to strengthening of the forces of recovery, while giving consideration to international factors," modified the wording of the preceding policy directive by deleting the phrase "that appear to be developing in the economy," qualifying words that had followed "the forces of recovery" in the directive that had been in effect since April 18, 1961.

Votes for this action: Messrs. Martin, Hayes, Allen, Balderston, Irons, King, Mills, Robertson, Shepardson, Swan, and Wayne. Votes against this action: none.

From data presented by the Committee members and the staff, it was apparent that the turning point of the recession had been reached quite some time earlier and that recovery had begun, although there was still doubt about the rate and probable duration of the business expansion. The few measures of economic activity available for May suggested that the pace of recovery had been maintained. Fragmentary data suggested that the Board's index of industrial production for May would be up 2 points from the preceding month, that retail trade figures would show a level well above first-quarter activity, and that employment measures would improve about seasonally for that

month. In the area of prices, broad measures of wholesale quotations had shown little change as scattered reductions offset increases in sensitive materials, and the consumer price index was unchanged from March to April, with the further likelihood that there would be little or no change from April to May.

The Committee observed that thus far the stimulus to the economy this year had come almost entirely from the reversal of inventory liquidation, the rise in Government expenditures, and the well maintained growth of consumption expenditures on nondurable goods and services. Neither trade reports nor surveys of buying intentions yet showed much evidence of a strong resurgence of demand for consumer durable goods or for housing, which had played such important roles in other postwar recoveries—a factor that caused misgivings in some quarters as to whether this recovery would carry forward after the initial stimulus of the inventory reversal disappeared.

Total loans and investments of banks increased substantially more than usual in May, reflecting largely bank participation in new Treasury financing. This bank credit expansion did not result in an increase in the seasonally adjusted private money supply, defined as demand deposits and currency outside of banks; but there were large increases in time deposits and U. S. Treasury deposits. Interest rates, which early in May had declined to the lowest levels since 1958, had since risen close to, and in some cases above, the highs that had been reached at times during the past 10 months. Short-term rates in particular had been influenced lately by a less marked degree of ease than prevailed shortly before the May 9 meeting, by prospective Treasury financing in the short-term area, and by the approach of the mid-June tax date, which date generally is preceded by reduced nonbank demand for Treasury bills. In addition, the demand on capital markets had been large and seemed likely to continue fairly heavy.

While the U. S. balance of payments position had shown considerable improvement compared with the fourth quarter of 1960, the current close balance in U. S. accounts was considered

by no means secure as short-term funds continued to flow out. Accordingly, the Committee felt that there continued to be a need to pay close attention to developments in international markets.

In view of impending U. S. Treasury financing, the usual midyear demand for funds, and a desire to encourage the expansion of bank credit and the money supply, the Committee concluded that in the period until the next meeting it would be desirable to maintain approximately the same degree of ease as had prevailed recently, resolving any doubts on the side of ease and clearly avoiding any lessening of the availability of reserves.

At the same time, the Committee decided to change the wording of the policy directive to make clear that there was no doubt that forces of recovery were developing; thus, it deleted the words that indicated such forces only "appeared" to be developing. This modification did not indicate a change in the policy of ease that had been pursued for some months; as noted earlier, it was the consensus that any doubts as to the availability of reserves should be resolved on the side of ease and that there should be no tightening in the market.

2. Authority to effect transactions in intermediate- and longer-term securities.

The Federal Reserve Bank of New York was authorized, between this date and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate- and/or longer-term U. S. Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.

Votes for this action: Messrs. Martin, Hayes, Balderston, Irons, King, Mills, Shepardson, Swan, and Wayne. Votes against this action: Messrs. Allen and Robertson.

Before renewing this authorization, the Committee gave consideration to the question of the possible desirability of withdrawing from operations in intermediate- and longer-term securities as rapidly as feasible without impairing the structure

of the Government securities market. It was the consensus, however, that such operations should continue to be authorized in terms of the objectives of current policy, with decisions as to actual operations left to the discretion of the Manager of the System Open Market Account.

Mr. Allen, in dissenting from the continuation of the special authorization, said that at its inception he felt the operation was ill-advised and misguided and that the operations had, as he saw it, confirmed that judgment. Mr. Robertson, also dissenting, said that in his view this would be a good time to terminate the operation.

June 20, 1961

1. Authority to effect transactions in System Account.

The Federal Open Market Committee directed the Federal Reserve Bank of New York to continue to conduct open market operations with a view to encouraging expansion of bank credit and the money supply so as to contribute to strengthening of the forces of recovery, while giving consideration to international factors.

Votes for this action: Messrs. Martin, Allen, Balderston, Mills, Robertson, Shepardson, Swan, Wayne, Johns, and Treiber. Votes against this action: none.

Data that had become available in the 2-week interval since the preceding meeting of the Committee indicated that economic recovery was continuing in a satisfactory manner. During May industrial production was at 108 per cent of the 1957 average, up 6 points from the February low, and a further rise seemed likely in June. On the basis of these figures and other preliminary data it was estimated that in the second quarter of the year gross national product would be at an annual rate of at least $512 billion, about $12 billion above the first-quarter rate. However, there still remained questions as to the future strength and pattern of the upswing. Although inventory liquidation had apparently terminated, no significant accumulation was as yet evident. Further, approximately 5 million persons were still un-

employed and the rate of unemployment remained close to the midwinter level, just under 7 per cent of the labor force on a seasonally adjusted basis. While retail sales were being maintained, there was not yet evidence of a real push in terms of increased consumer buying. The moderate level of demand and the availability of unused resources had been accompanied by generally stable prices.

In the financial area, recent bank credit developments had been about in line with expected movements for the current phase of the business cycle. There had been a large volume of financing in the capital markets, with a steady flow of investment funds into new issues. Bank liquidity had shown improvement in recent weeks, particularly at money market banks, and the demand for bank credit continued to be moderate. For a considerable time, the rate on 3-month Treasury bills had been within the range of 2⅛ to 2⅝ per cent, most of the time between 2¼ and 2½ per cent. International financial developments, especially the developing pressure on the British pound sterling and the continuing moderate deficit in the U. S. balance of payments, caused a number of Committee members to feel that it would be desirable if short-term interest rates could be maintained within the recently prevailing range.

In view of the current levels of liquidity and of resource utilization, and in the absence of inflationary price pressures, it was considered appropriate, during the forthcoming period, to continue to encourage expansion in bank credit and the money supply. Consequently, the consensus of the Committee was that open market policy should be directed toward maintaining substantially the same degree of reserve availability as had prevailed recently, with the understanding that any doubts arising in the operation of the System Open Market Account would continue to be resolved on the side of ease.

2. Authority to effect transactions in intermediate- and longer-term securities.

The Federal Reserve Bank of New York was authorized, between this date and the next meeting of the Committee, within

the terms and limitations of the directive issued at this meeting, to acquire intermediate- and/or longer-term U. S. Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.

Votes for this action: Messrs. Martin, Balderston, Mills, Shepardson, Swan, Wayne, Johns, and Treiber. Votes against this action: Messrs. Allen and Robertson.

In renewing this special authorization, the Committee noted that there had been no occasion to operate in longer-term issues during the past 2 weeks. However, it was concluded that it would be advisable to continue to have the authority available, for use in the judgment of the Account Manager as circumstances might arise.

Messrs. Allen and Robertson dissented from continuing this special authorization for reasons similar to those they had expressed at earlier meetings.

July 11, 1961

1. Authority to effect transactions in System Account.

The Committee's directive to the Federal Reserve Bank of New York was renewed without change. It thus directed that open market operations be conducted with a view to encouraging expansion of bank credit and the money supply so as to contribute to strengthening of the forces of recovery, while giving consideration to international factors.

Votes for this action: Messrs. Martin, Hayes, Allen, Balderston, King, Mills, Robertson, Shepardson, Swan, Wayne, and Johns. Votes against this action: none.

In June the prerecession highs of mid-1960 had been reattained, or even surpassed, in a number of the major over-all measures of economic activity. Gross national product, expressed in current dollars, had risen from a seasonally adjusted annual rate of about $500 billion in the first quarter of the

current year to a currently estimated $513 billion in the second quarter, about $8 billion above the previous peak reached in the second quarter of 1960. The quarter-to-quarter increase reflected a turnaround from substantial inventory liquidation to moderate inventory accumulation, as well as an increase in consumer spending for goods and services. Exports remained high, although no longer providing stimulus to the economy. Government spending—including Federal, State, and local—was rising further, but at a somewhat slower pace than earlier. As to industrial production, preliminary data suggested that the June index had reached 110 per cent of the 1957 average, compared with a low of 102 in February 1961 and a prerecession level of 110 in mid-1960. At the same time, the general average of wholesale prices had continued to drift down and the consumer price index had shown almost no change since October 1960. Both employment and unemployment increased in June, in line with the typical pattern for that time of year, but the rise in employment was considerably sharper than usual. Seasonally adjusted, the unemployment rate continued at 6.8 per cent, the level around which it had fluctuated for several months.

Despite the favorable record of economic recovery, questions remained as to the probable speed and extent of expansion, relating mainly to the vigor and strength of future consumer demand and to the unemployment rate. Thus far, the recovery had been quite broadly based and not dependent on sharp growth in limited sectors of the economy.

Private demand deposits, seasonally adjusted, showed no net increase from the second half of May to the second half of June and had shown no increase on balance since the latter half of March. Accordingly, the money supply, narrowly defined to include currency in circulation and privately held demand deposits, was one indicator that had not returned to its peak. Time deposits, however, continued to expand; combined with increased Treasury deposits, this had brought total deposits to a new high level.

As in May, the June increase in bank assets reflected to a considerable extent the acquisition by banks of U. S. Government securities at the time of Treasury cash offerings. Loans did not increase as much as is usually the case in the month of June.

Short-term interest rates continued to fluctuate within the relatively narrow range that had prevailed since the latter part of 1960. Long- and medium-term rates, on the other hand, rose further in June and were near or above the highest levels of the past year, evidently reflecting the continued substantial volume of borrowing by corporations and by State and local governments. The terms of substantial Treasury operations to refund August maturities and to obtain new cash were due to be announced shortly.

The U. S. balance of payments (disregarding a West German debt repayment of nearly $600 million) appeared to have turned more adverse again in the second quarter, but without any large increase in the over-all deficit. The main factors in the change included a moderately reduced trade balance and a continuing net outflow on capital account.

As indicated by the renewal of the existing directive to the New York Bank, there was agreement within the Committee that, in the present circumstances, monetary policy should continue to encourage further expansion in bank credit and the money supply in order to provide additional stimulus to the forces of economic recovery. For the forthcoming period, it was the consensus that open market operations should be designed to maintain approximately the same degree of ease that had recently prevailed, associated with a free reserve level of around $500-$600 million.

While concurring in general with the consensus, Mr. Mills called attention to the inflationary potential that in his opinion was inherent in a policy that fostered constant high levels of free reserves and failed to give sufficient weight to the existence of time deposits as a coordinate of the conventionally defined money supply and a force for injecting excessive liquidity into the com-

mercial banking system by way of creating additional near-money substitutes.

2. *Authority to effect transactions in intermediate- and longer-term securities.*

The Committee authorized the Federal Reserve Bank of New York, between this date and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate- and/or longer-term U. S. Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.

Votes for this action: Messrs. Martin, Hayes, Balderston, King, Mills, Shepardson, Swan, Wayne, and Johns. Votes against this action: Messrs. Allen and Robertson.

After extensive discussion of the pattern of operations in intermediate- and longer-term securities since this authorization was first given by the Committee on February 7, 1961, it was the consensus that the original criteria for such operations, as indicated in the policy record entry of that date, should not be broadened at this time, considering among other things the inconclusiveness of the evidence concerning the effect of the operations. On the other hand, it was felt by the majority that an interpretation that the System was disengaging from operations in the intermediate- and longer-term areas should be avoided. One member of the Committee, Mr. Mills, voted for renewal of the authorization subject to the qualification that for the present the Management of the Open Market Account should abstain from operations outside the bill market. Messrs. Allen and Robertson voted against renewal of the authorization for the reasons that they had expressed on previous occasions. In addition, Mr. Robertson felt a diminution of private participation in market pricing and distribution was beginning to be apparent and could become worse if the trend of official purchases of intermediate- and long-term Government securities were continued.

August 1, 1961

1. Authority to effect transactions in System Account.

The Committee renewed the directive to the Federal Reserve Bank of New York calling for open market operations with a view to encouraging expansion of bank credit and the money supply so as to contribute to strengthening of the forces of recovery, while giving consideration to international factors.

Votes for this action: Messrs. Martin, Allen, Balderston, King, Mills, Shepardson, Swan, Wayne, Johns, and Treiber. Votes against this action: none.

Although it appeared that the rate of economic expansion in June and July had not been as rapid as in preceding months, the economy was still moving toward higher levels of activity. Employment, income, sales, industrial production, and construction all continued to move upward. At the same time, prices continued stable. There remained a substantial underutilization of plant capacity, along with a high level of unemployment. Total bank credit had increased substantially further due to the acquisition of Government securities by banks as a result of the Treasury's recent financing program, and the bank loan picture was somewhat stronger in July than it had been in June. The money market had been quite easy.

Developments since the July 11 meeting having special significance from the standpoint of the formulation of monetary policy included a request by the President of the United States for substantial additional defense expenditures, giving rise to the prospect of an increased Federal deficit. The prospective stimulus of greater deficit spending upon the domestic economy suggested a need for alertness to lessen the degree of monetary ease in case speculative or inflationary tendencies should develop. The second significant development since the preceding meeting was the raising of the Bank of England's bank rate (discount rate) to 7 per cent, in line with a general governmental program designed to limit expansion of domestic demand in order to cope

with an unfavorable external payments position. It was recognized that the resulting differential between British and U. S. short-term interest rates and credit availability, to the extent that it induced a flow of funds from this country to the United Kingdom, would be a force working to limit further decline in short-term rates domestically and perhaps exerting some upward pressure on them. Another possible effect would be some worsening of the over-all deficit in the U. S. balance of payments, particularly in view of the adverse tendencies indicated by second-quarter developments of the current year.

Balancing the considerations pertinent to the formulation of monetary policy under current conditions, the Committee concluded that although alertness to developing factors, both domestic and international, was in order, a policy of continued ease, while at the same time avoiding a decline in short-term interest rates, would be appropriate for the period immediately ahead in order to help foster domestic economic recovery at a reasonable pace. Therefore, the consensus favored continuation of approximately the same degree of ease that had been maintained recently.

Mr. Mills was of the opinion that both domestic considerations related to inflationary potentials inherent in too broad a reserve base and international considerations calling for a closer alignment between U. S. Treasury bill and foreign bill rates required a reduction in the supply of reserves, which would serve to bring some upward pressure on short-term interest rates.

2. Authority to effect transactions in intermediate- and longer-term securities.

The Committee authorized the Federal Reserve Bank of New York, between this date and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate- and/or longer-term U. S. Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.

Votes for this action: Messrs. Martin, Balderston, King, Mills, Shepardson, Swan, Wayne, Johns, and Treiber. Vote against this action: Mr. Allen.

Developments since the preceding meeting, including those focusing attention upon the relationship of U. S. short-term rates to rates in other countries, had resulted in substantial purchases of securities other than bills by the Open Market Account in order to provide needed reserves but not contribute directly to a further decline in Treasury bill rates. The renewal, with one dissent, of the authorization for operations in longer-term securities was given without restriction on the discretion of the Management of the Open Market Account to take such actions as seemed appropriate in the light of market developments and the effectuation of over-all monetary policy. However, there was some opinion within the Committee that, if feasible, a lesser volume of System purchases of securities in the longer maturity range, or even a reduction of Account holdings, would be advisable.

August 22, 1961

1. Authority to effect transactions in System Account.

Clause (b) of the directive to the Federal Reserve Bank of New York was changed to provide for open market operations with a view to encouraging credit expansion so as to promote fuller utilization of resources, while giving consideration to international factors. The previous directive, which had been in effect since June 6, 1961, provided for operations with a view to encouraging expansion of bank credit and the money supply so as to contribute to strengthening of the forces of recovery, while giving consideration to international factors.

Votes for this action: Messrs. Martin, Allen, Balderston, Irons, King, Mills, Robertson, Swan, Wayne, and Treiber. Votes against this action: none.

Although industrial production increased to a record rate in July, it remained well below capacity levels. The consumer and

wholesale price indexes remained generally steady, and sensitive industrial prices had leveled off after a rise earlier in the recovery period. Sales of durable goods, although rising, continued to lag behind manufacturers' new orders. While employment had been expanding rapidly, the level of unemployment remained near the recession high. Total retail trade was down slightly in July, reflecting principally lower automobile sales, this decline apparently being related to the earlier than usual model changeover period. While consumer spending had increased as the recovery progressed, it had shown less than a typical upsurge for this stage of the business cycle, and buying intentions, according to recent surveys, appeared to be relatively weak. Evidence suggested that consumers had been willing thus far to devote a large part of their increased incomes to saving, rather than increasing their consumption of consumer goods or accumulating physical assets.

While business improvement continued to be strong and broadly based throughout the economy, this expansion had had little counterpart in accelerated demands upon the financial system. Loan demand at banks lacked the vigor usually associated with the current stage of cyclical expansion, and bank asset expansion had reflected chiefly purchases of Federal and municipal securities. Net deposit expansion was continuing to represent largely an increase in time deposits. An upward interest rate movement appeared to reflect in the main expectations—based on the improved economic outlook, higher defense expenditures, and prospective higher levels of Treasury borrowing—rather than any change in the current need for and supply of funds. The upward rate movements were reinforced, particularly in the short-term area, by a reduced level of free reserves of the banking system in the first part of August, partly due to added required reserves against deposits created by Treasury cash financing and partly due to large market drains of unforeseen dimensions.

As to the balance of payments, preliminary data on gold and dollar transfers to foreigners for July suggested a July payments deficit about twice the monthly rate of deficit for the second

quarter of the year. While the July situation reflected in part temporary and seasonal influences, over-all payments tendencies suggested deterioration of the deficit position, particularly in terms of the trade balance.

There was general agreement within the Committee that economic and financial developments, both domestic and international, should continue to be watched closely. However, for the ensuing 3-week period the consensus favored continuing about the same degree of ease that had prevailed, except during the period in early August when a confluence of market factors contrived to produce more firmness than had otherwise been the case. The change in the language of the directive therefore did not signify an intent to effect any immediate change in System policy. Instead, it reflected the view of the Committee that the amended wording was more appropriate at a time when the domestic economy was progressing from the stage of recovery into an expansionary phase.

Although concurring in general with the consensus, Mr. Mills was of the opinion that natural demand forces should be relied upon to foster an expansion of bank loans, and that forcing reserves on the commercial banking system could only lead to future inflationary and speculative problems as well as cause foreign observers to question the suitability of monetary policy in the United States as related to balance of payments and inflationary considerations.

2. Authority to effect transactions in intermediate- and longer-term securities.

The Committee authorized the Federal Reserve Bank of New York, between this date and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate- and/or longer-term U. S. Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.

Votes for this action: Messrs. Martin, Balderston, Irons, King, Mills, Swan, Wayne, and Treiber. Votes against this action: Messrs. Allen and Robertson.

The Committee renewed the authorization, with two dissents, on a basis that continued to vest in the Management of the Open Market Account discretion, within the scope of current Committee policy objectives, for determining the extent to which the authority should be utilized in the light of market developments. One member of the Committee, Mr. King, favored continuing the authorization in effect, but disengaging from operations under it for the time being, while another member, Mr. Mills, voted for continuation of the authority with the recommendation that it be used, when practicable, for reduction of the Open Market Account's portfolio of securities other than Treasury bills. Mr. Robertson, one of the two members who dissented from renewal of the authorization, cited the shrinkage in private retail buying interest in the long-term Government securities market which had accompanied the continuation of official purchases of such securities, and the lack of any apparent major benefits from such purchases. Although he believed that cessation of operations in longer-term securities would be the wisest course, he suggested that the Committee begin by returning to the initial standard, set on February 7, 1961, of barring operations in securities maturing beyond 10 years. This, he felt, would lay the foundation for progressively further limitations later as, in the Committee's view, conditions might make such action appropriate.

September 12, 1961

1. Authority to effect transactions in System Account.

The Committee renewed without change the directive to the Federal Reserve Bank of New York calling for open market operations with a view to encouraging credit expansion so as to promote fuller utilization of resources, while giving consideration to international factors.

Votes for this action: Messrs. Martin, Allen, Balderston, Irons, King, Mitchell, Robertson, Shepardson, Swan, Wayne, and Treiber. Votes against this action: none.

Available economic data, mostly relating to the month of August, indicated the continuation of a recovery movement in

which almost all economic indicators had risen above their earlier peaks, but without evidence, however, of an attitude of excessive exuberance on the part of the business community. Some stimulation from additional defense expenditures appeared to be about offset by a lower level of consumer spending than might ordinarily be expected at the current stage of the business cycle. Consumer credit outstanding, which declined in July, appeared to have declined further in August. While the recovery movement appeared to be dependent to a considerable extent on the stimulus provided by the public sector of the economy, there was no suggestion that the stimulus from that sector would be withdrawn. On the other hand, while the vastly increased liquidity of the economy, especially in the hands of consumers, constituted a reservoir of potential spending, there was no present evidence of a significant increase in consumer spending.

Commercial bank loans and investments declined somewhat in August following the large increase in July, which had been due mainly to Treasury financing operations. Business borrowing from banks had thus far shown a rise of no more than usual seasonal proportions. The money supply, narrowly defined to include only currency and demand deposits, changed little in August for the fifth successive month, while the rise in time and savings deposits at commercial banks slackened slightly after having maintained a sharp rate of increase, seasonally adjusted, earlier in the summer.

As to the balance of payments, it appeared that the large transfer of gold and dollars from the United States to foreigners in July could be accounted for mainly by temporary factors, including a large outward capital movement, a reduced trade surplus reflecting a contraseasonal rise in imports, and a seasonal increase in tourist expenditures. Preliminary indications suggested that the deficit may have been reduced in August. Nevertheless, even if the July deficit reflected temporary factors, the gravity of any tendency toward deterioration of the U. S. international payments position was apparent, particularly when viewed

in the light of the accumulated deficit over a period of years and the resulting diminution in the margin of monetary reserve protection.

Views on monetary policy for the ensuing 3-week period were influenced by the fact that throughout this period the Treasury would be in the market with large and complex new cash and refinancing operations. This circumstance suggested the desirability of a steady money market. Even apart from this factor, however, the consensus was favorable to continuation of essentially the same degree of ease that had prevailed, although there was general agreement that the Committee should continue to be particularly alert to the emergence of developments that might call for some shift of policy. A minority of Committee members, while agreeing generally with the consensus as to operations during the forthcoming period, suggested that such questions as might arise in the conduct of operations be resolved on the side of less ease, particularly since the risk of a faltering of domestic economic expansion seemed to have receded while the risk of further deterioration in the international financial position of the United States appeared to have increased.

2. Authority to effect transactions in intermediate- and longer-term securities.

The Committee authorized the Federal Reserve Bank of New York, between this date and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate- and/or longer-term U. S. Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.

Votes for this action: Messrs. Martin, Balderston, Irons, King, Mitchell, Shepardson, Swan, Wayne, and Treiber. Votes against this action: Messrs. Allen and Robertson.

The comments on the renewal of this authority did not reveal any significant change in the views of the Committee members,

as previously expressed, regarding the desirability or utilization of the authority.

October 3, 1961

1. Authority to effect transactions in System Account.

The directive to the Federal Reserve Bank of New York, calling for open market operations with a view to encouraging credit expansion so as to promote fuller utilization of resources, while giving consideration to international factors, was renewed without change.

Votes for this action: Messrs, Balderston, Allen, Irons, King, Mills, Mitchell, Robertson, Shepardson, Swan, Wayne, and Treiber. Votes against this action: none.

There was no evidence of substantial change in the economic and financial picture since the preceding meeting of the Committee, although the pace of expansion appeared to have moderated somewhat. The demand for bank loans had been roughly in line with business developments, with no indication of exceptional borrowing in expectation of higher interest rates or inventory needs. Prices continued to exhibit stability, and there remained an underutilization of plant capacity and a high rate of unemployment.

In these circumstances, and in view of current Treasury financing operations, the consensus favored continuation during the period immediately ahead of approximately the same degree of ease that had prevailed during recent weeks, in the belief that a need for some additional credit and monetary expansion existed in order to achieve higher levels of resource utilization. A minority of the Committee suggested, however, that doubts arising in the conduct of open market operations be resolved on the side of less ease, principally in the thought that a gradual move in such direction would place the System in a more advantageous position if and when forces should accumulate that would call for a positive shift towards a less stimulative monetary policy.

One member of the Committee, Mr. Mills, voted against the implementation of policy in the manner indicated by the consensus, believing that policy should now move more positively toward a lesser degree of ease. While he would contemplate a reserve base ample to support the credit needs of the economy, in his judgment more than enough reserves were available to satisfy such needs. Mr. Mills felt that the Committee must move back from the present degree of ease cautiously and experimentally. However, he was apprehensive about the degree of liquidity of the commercial banking system and felt that a start should be made toward limiting further expansion in, or perhaps absorbing some of, that liquidity to the end that a resulting firming in the interest rate structure, besides paving the way toward a possible increase in the discount rate of the Federal Reserve Banks to 3½ per cent, would reduce the disparity between short-term interest rates in the United States and Great Britain and in that way give visible evidence of a determination to use monetary policy as one means of keeping balance of payments problems and inherent inflationary tendencies under control.

2. Authority to effect transactions in intermediate- and longer-term securities.

The Committee authorized the Federal Reserve Bank of New York, between this date and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate- and/or longer-term U. S. Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.

Votes for this action: Messrs. Balderston, Irons, King, Mills, Mitchell, Shepardson, Swan, Wayne, and Treiber. Votes against this action: Messrs. Allen and Robertson.

The recording of votes on the authorization reflected no changes from previously expressed attitudes except in one case. Mr. Mills stated that he continued to oppose purchases of longer-term securities for the System Open Market Account and to

favor reduction of the volume of such securities held in the portfolio. He now felt, however, that further experience had justified operations in short-term Government securities other than bills as being in the interest of a flexible conduct of monetary policy. The advantages of policy flexibility that had been gained through these dealings would be enhanced, in his opinion, if more emphasis were placed on sales of such securities when withdrawing reserves as compared with the weight that had been given to purchases for the purpose of supplying reserves.

October 24, 1961

1. Authority to effect transactions in System Account.

The New York Reserve Bank was again directed to administer open market operations with a view to encouraging credit expansion so as to promote fuller utilization of resources, while giving consideration to international factors.

Votes for this action: Messrs. Hayes, Allen, Balderston, Irons, King, Mills, Mitchell, Robertson, Shepardson, Swan, and Ellis. Votes against this action: none.

The latest available statistical data, mostly for the month of September, reflected some hesitation in the pace of business expansion, as attested by a faltering in the industrial production index. However, there had been certain transitory factors at work, including abnormal weather conditions in parts of the country and a strike in the automotive industry, and it was difficult to determine how much of the deceleration of economic advance was attributable to such factors. Unemployment had not been reduced significantly, and retail sales figures failed to suggest buoyancy. Also, the rate of increase of personal income had slowed somewhat in August and September. Wholesale prices remained below the level that had prevailed in March of this year. On the other hand, gross national product was estimated to have advanced significantly from the second to the third quarter, and scattered evidence indicated that October trends were such as to support a more optimistic appraisal of the business outlook than the September statistics might suggest.

Total bank credit expanded significantly in September and in the third quarter as a whole, the conventionally defined money supply showed in September the first substantial increase in several months, and time deposits at commercial banks continued their rapid growth. These developments were aided by substantial new cash offerings of Treasury securities, which had been acquired in large part by the banks. Treasury bills had been relatively firm, with 3-month bill rates moving generally within the 2.25 - 2.35 per cent range in which they had fluctuated since late August. Within about a week, the Treasury was expected to announce the terms of a large November refunding.

In the third quarter, transfers to foreigners of gold, convertible foreign currencies, and dollars were at a seasonally adjusted annual rate of more than $3 billion, as compared with an annual rate of less than $2 billion in the second quarter, after eliminating the influence of special debt repayments. Within the third quarter, moreover, September appeared to have been the weakest month, and such October figures as were available suggested little, if any, improvement. Whereas in the second quarter basic U. S. payments were approximately in balance, the third-quarter figures reflected a deficit. The main reasons for the deterioration were that imports had increased faster than expected and the net capital outflow had failed to diminish.

Consideration of these diverse factors resulted in a consensus that a continuation of the monetary policy the Committee had been following would be appropriate from the standpoint of domestic conditions, though with a tendency to resolve any doubts arising in the conduct of open market operations on the side of less ease. It was agreed that the System should meet seasonal needs for reserves and also that it should endeavor, in accordance with its practice of long standing, to maintain steady money market conditions in view of the Treasury's refinancing program. Because of international factors, however, the consensus favored giving more than usual attention to short-term rates.

Mr. Mills dissented from the implementation of policy in the

manner indicated by the consensus because, as he had indicated at the October 3 meeting, he felt that Federal Reserve policy aimed at encouraging the expansion of bank credit had resulted in an increase in banking, industrial, and commercial liquidity that was approaching an inflationary status and had already tended to damage the fabric of the money market. In the circumstances, including the ramifications of the international situation, he believed that a start should be made toward implementing a moderately restraining monetary and credit policy.

2. Authority to effect transactions in intermediate- and longer-term securities.

The Committee authorized the Federal Reserve Bank of New York, between this date and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate- and/or longer-term Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.

Votes for this action: Messrs. Hayes, Balderston, Irons, King, Mills, Mitchell, Shepardson, Swan, and Ellis. Votes against this action: Messrs. Allen and Robertson.

No changes were indicated in previously expressed positions of members of the Committee concerning the authorization and operations thereunder.

November 14, 1961

1. Authority to effect transactions in System Account.

The Committee renewed without change the directive to the Federal Reserve Bank of New York providing for open market operations with a view to encouraging credit expansion so as to promote fuller utilization of resources, while giving consideration to international factors.

Votes for this action: Messrs. Martin, Hayes, Allen, Irons, King, Mills, Mitchell, Robertson, Swan, and Wayne. Votes against this action: none.

On the basis of preliminary data, the Board's industrial production index appeared to have recovered in October the 1-point September decline, and possibly to have exceeded the August high. With the model changeover completed and the strike settled, automobile production had increased sharply in October, with a further substantial rise in November indicated by industry schedules. New orders for machinery were up in October, along with heavy engineering contracts, employment showed moderate improvement, and total retail sales had broken out of the narrow range within which they had fluctuated since midyear. The unemployment rate continued, however, at approximately the level that had persisted for almost a year. Some decline was noted in a few sensitive commodity prices, and third-quarter corporate profits were below earlier expectations. A recent private survey of business plans for spending on new plant and equipment in 1962 suggested only a modest rise above the level of expenditures for the current year. On the other hand, consumer spending showed signs of considerably improved strength in October.

Despite the October showing with regard to increased consumer spending, questions still remained concerning the underlying strength of consumer demand. For example, consumer savings and liquid asset holdings were still continuing at a high level, and consumers were not yet resorting actively to the use of their available borrowing power. The latest samplings of buying intentions for durable goods, moreover, afforded little evidence that consumer demand might become a strong independent factor in furthering economic expansion in the months immediately ahead.

In the financial area there had been a further sizable expansion in the money supply, accompanied by only a moderate increase in bank loans. The short-term Treasury bill rate had risen recently, following a downdrift in interest rates, particularly in the long-term sector. System open market operations during this period were large, but insufficient to meet the drain on reserves from market factors, and free reserves had declined somewhat, with modest tightening in the money market. While this

tightening had resulted from the play of market forces, circumstances such as the lower average free reserve figure for one of the statement weeks and the concurrent upward movement of Treasury bill rates had led to speculation regarding a shift in Federal Reserve policy.

Data on the U.S. balance of payments showed that for the third quarter of 1961 the deficit, on a seasonally adjusted basis, was at an annual rate somewhat above $3 billion, representing a substantial deterioration from the first half of the year. The largest single contributory factor to the increased deficit was a rise in imports. As to October, preliminary incomplete data afforded little basis for belief that the deficit had been reduced from the high September figure.

The consensus that evolved from the discussion at this meeting favored continuation for the period just ahead of a monetary policy calculated to produce approximately the same degree of ease that had prevailed for some time, except for the part of the preceding 3-week period in which a tendency toward a somewhat tighter money market had developed. It was the view of a majority of the Committee that, although economic developments should be watched closely in order to determine whether a shift in policy toward a less stimulative monetary posture would be appropriate, at this particular juncture various factors such as the persistence of a relatively high volume of unused resources, the absence of inflationary pressures, and the still unresolved question of the pace of consumer spending presented strong arguments against any significant lessening of monetary ease.

Two members of the Committee, Messrs. Hayes and Mills, dissented from the implementation of policy in the manner indicated by the consensus. Mr. Hayes felt that it would be desirable for the Treasury bill rate to move into a moderately higher range, as a contribution in a minor way toward recognition of the serious U. S. international payments problem, and he was prepared to accept a somewhat lower level of free reserves should that prove necessary to sustain the bill rate. However, he would not favor any noticeable shift in System policy at this time. Also,

if the Treasury should decide to undertake an advance refunding in the near future, then he would feel that no change in existing monetary policy would be appropriate. Mr. Mills dissented because of his belief that implementation of policy according to the consensus would fail to take the initiative that the Federal Reserve System should properly take at this juncture. In his view the monetary and credit situation to which he had addressed himself at the two previous meetings of the Committee had since worsened. It continued to be imperative, in his opinion, to restrict the supply of reserves to such extent that the expansion of bank credit would be contained largely within the bounds of the resources already at the banks' disposal, at the same time that a firmer structure of interest rates would serve to discourage the transfer of gold and dollars abroad. In combination, the effect of these actions should, he thought, give public evidence of a determination to follow orthodox principles in defending the international exchange value of the dollar.

2. Authority to effect transactions in intermediate- and longer-term securities.

The Committee authorized the Federal Reserve Bank of New York, between this date and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate- and/or longer-term U. S. Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.

Votes for this action: Messrs. Martin, Hayes, Irons, King, Mills, Mitchell, Swan, and Wayne. Votes against this action: Messrs. Allen and Robertson.

The renewal of the authorization was without indication of change in the views stated regarding it when the authority was previously renewed.

December 5, 1961

1. Authority to effect transactions in System Account.

The policy directive to the Federal Reserve Bank of New York calling for open market operations with a view to encouraging

credit expansion so as to promote fuller utilization of resources, while giving consideration to international factors, was renewed at this meeting without change.

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

On the basis of more complete data for October than had been available at the preceding Committee meeting, together with preliminary data for November, it appeared that after a period of hesitation in August and September a strong growth trend in the economy had resumed, although without indication of excesses or undue exuberance. December production schedules, particularly in steel and automobiles, suggested a further upward movement in industrial production by year-end, and the tone of business sentiment, as reflected in district reports, was generally on the optimistic side. Additional improvement was noted in retail sales, as well as in manufacturers' sales and orders. Also, although there continued to be a substantial amount of unutilized manpower, preliminary unemployment statistics for November indicated a significant percentage reduction, for the first time in a year. Prices continued to show general stability. Despite recent improvement, there remained a degree of uncertainty regarding the probable future pace of consumer outlays, and there was likewise little evidence of an upward surge in plans for plant and equipment expenditures.

Despite the apparently accelerated pace of economic expansion in November, the rate of bank credit and deposit expansion seemed to have slackened, following the pronounced increase in September and October. Nevertheless, money markets were relatively firm in November until the end of the month, and interest rates generally rose somewhat. Treasury bill yields rose in the latter part of the month to or slightly above the peaks reached at various times of seasonal pressure during the past 15 months.

There was no evidence of improvement in the international

payments position of the United States, perhaps some further deterioration. Preliminary reports on the balance of payments for November suggested that the deficit was about equal in size to the October and September deficits.

The Open Market Committee, in considering the appropriate course of monetary policy for the period ahead, observed that the recent tendency toward a firming of money market conditions reflected pressures generated within the market itself rather than positive action on the part of the System. The fact that market forces had resulted in increasing somewhat the Treasury bill rate level was regarded as fortunate, in view of the balance of payments problem, and it was not felt that System operations to offset the effect of the prevailing market forces would be warranted. In fact, a minority of the Committee believed that the expansionary trend and current strength of the domestic business situation would justify some lessening in the volume of reserves placed at the disposal of the banking system as a basis for further expansion of credit. However, due to the absence of stresses and strains in the economy at the present time and in light of the several remaining points of uncertainty that tended to cast some doubt on the pattern of future economic developments, the consensus favored maintaining for the immediate future approximately the same policy in respect to the supplying of reserves that the Committee had been pursuing for some time.

2. Authority to effect transactions in intermediate- and longer-term securities.

The Federal Reserve Bank of New York was authorized, between this date and the next meeting of the Committee, within the terms and limitations of the directive issued at this meeting, to acquire intermediate- and longer-term U. S. Government securities of any maturity, or to change the holdings of such securities, in an amount not to exceed $500 million.

Votes for this action: Messrs. Martin, Hayes, Balderston, Irons, King, Mitchell, Shepardson, Swan, Wayne, and Fulton. Vote against this action: Mr. Robertson.

No change was indicated in positions previously expressed with respect to this authorization.

December 19, 1961

1. Authority to effect transactions in System Account.

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

> It is the current policy of the Committee to permit further bank credit and monetary expansion so as to promote fuller utilization of the economy's resources, together with money market conditions consistent with the needs of both an expanding domestic economy and this country's international balance of payments problem.
>
> To implement this policy, operations for the System Open Market Account shall be conducted with a view to providing reserves for bank credit and monetary expansion (with allowance for the wide seasonal movements customary at this time of the year), but with a somewhat slower rate of increase in total reserves than during recent months. Operations shall place emphasis on continuance of the 3-month Treasury bill rate at close to the top of the range recently prevailing. No overt action shall be taken to reduce unduly the supply of reserves or to bring about a rise in interest rates.

Votes for this action: Messrs. Martin, Hayes, Balderston, Irons, Shepardson, Swan, Wayne, and Fulton. Votes against this action: Messrs. King, Mills, Mitchell, and Robertson.

(This directive was the first issued by the Committee under new procedures instituted at this meeting—explained in a subsequent entry of this date—under which the substance of the Committee's previous directive was to be divided between a "current economic policy directive" and a "continuing authority directive.")

Data for November available to the Committee at this meeting indicated continued expansion in economic activity on many fronts and a substantial rise in consumer outlays, an area with respect to which there had earlier been some uncertainty. Final figures for November industrial production indicated a rise of 1 point in the Board's index, with prospects for another 1- or 2-point increase in December. New orders for durable goods were

up moderately, and unfilled orders had risen further. The November decline in the unemployment rate on a seasonally adjusted basis, which had been suggested by preliminary figures available at the previous meeting, was confirmed in the final calculations. Preliminary estimates for gross national product in the fourth quarter indicated that despite strikes and other temporary setbacks the economy had performed up to the more optimistic of the earlier expectations.

Evidence was lacking of inflationary pressures associated with the continued upward movements in production and spending. The final price indexes for November showed no significant change on the average, with increases in some lines offset by decreases in others. Scattered figures available for December suggested that the stability was continuing. While business optimism had picked up considerably in recent weeks, figures on plant and equipment expenditure plans for the first quarter of 1962 indicated only a moderate rate of growth over the fourth quarter of 1961. Partial data on bank credit for the first half of December indicated relatively small changes in recent weeks in loans to businesses, although there had been an increase in the seasonally adjusted money supply.

The recent advance in interest rates, which was concentrated largely in the short-term area of the market, continued in the first half of December, with yields on some issues rising to new highs for the year. These advances appeared to be attributable to cyclical developments in the economy, as well as to usual seasonal factors. In contrast to the encouraging domestic picture, data on the balance of payments for November indicated an adverse basic balance as large as, if not larger than, in October, and fragmentary data for the first half of December indicated a continuation of the November trend.

It was the judgment of the Committee majority that improvements in the domestic economic situation coupled with the continuing balance of payments problem warranted a policy trending toward slightly less easy monetary conditions, with short-term interest rates near the high end of their recent range.

However, in view of the facts that the unemployment rate, while reduced from earlier levels, was still relatively high and that there were no symptoms of inflationary pressures, the majority felt that no substantial change from recent policies was called for. Accordingly, the Committee issued the directive quoted above.

While Mr. Robertson's analysis of the economic situation and the proper direction of policy was the same in its essentials as that of the majority, he voted against adoption of this directive on the grounds that it was undesirable to tie monetary policy to the bill rate. Mr. Mills' dissent was on the grounds that circumstances called for a greater degree of restraint than was indicated in the directive. In his opinion the Committee had been dilatory in acting firmly to combat the balance of payments problem through monetary policy, and despite a situation where an over-generous provision of reserves had continuously allowed the commercial banking system ample leeway for expanding bank loans within the total of its available resources. Messrs. King and Mitchell, on the other hand, thought the time had not yet arrived for any modification of policy in the direction of less ease.

2. Modification of form of directive to Federal Reserve Bank of New York.

As indicated in the preceding entry, the Federal Open Market Committee voted at this meeting to replace the single directive of the type it had issued to the Federal Reserve Bank of New York in the course of its meetings in the past with a "current economic policy directive" and a "continuing authority directive." In accordance with this revision of procedure the Committee adopted the following continuing authority directive:

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 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 (in-

cluding 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 in the open market 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, 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.

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 total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed $500 million.

Votes for this action: Messrs. Martin, Hayes, Balderston, Irons, King, Mitchell, Shepardson, Swan, Wayne, and Fulton.
Votes against this action: Messrs. Mills and Robertson.

(The current economic policy directive adopted at this meeting is quoted in the first policy record entry for this date.)

In the view of the majority, separation of the continuing authorizations from the current directive would permit the Committee to frame its current economic policy instructions to the Federal Reserve Bank of New York in a more effective fashion. Previously the formal economic policy instructions had been

compressed into a single clause—clause (b) of the first paragraph in directives of the former type—of a longer statement also including instruction on other matters which were subject to relatively infrequent change.

The new continuing authority directive was intended to encompass the substance of the previous single directive, except for clause (b), and of certain other authorizations and directives relating to repurchase agreements and bankers' acceptances that previously had been adopted independently of the directive. No action was taken to discontinue previous authorizations on repurchase agreements and bankers' acceptances. The language in the new continuing authority directive was rephrased from that of earlier instruments for the sake of greater clarity, but with one exception the Committee made no substantive changes in its authorizations and directions to the Account Management. The exception related to the maturity limit of securities acquired from nonbank dealers under repurchase agreements, which was 15 months under the previous authority and was set at 24 months in the new continuing directive.

Mr. Mills dissented from the action to adopt the continuing directive because, in his view, directives of the previous type that were tied to "ground rules" set out in specifically stated operating policies more clearly reflected the judgments of the Committee, and in a manner to which the interested public had become accustomed. He was concerned that in the new type of current policy directives, a tendency toward the use of amorphous statements and generalities in describing policy intentions would in the future prevent fixing responsibility for previous actions that had come under criticism.

Mr. Robertson's dissent was on two grounds. First, he objected to the inclusion of the authority to buy Government securities from nonbank dealers under repurchase agreements at rates that could be lower, in certain circumstances, than the discount rate of the Federal Reserve Bank of New York. Second, he objected to the fact that the directive did not include certain rules within which, in his view, the Account Management should

operate on behalf of the Committee. Specifically, the document did not include any directive to the effect that open market operations were to be conducted primarily to supply or absorb bank reserves; it did not limit open market operations to short-term securities; it contained no restriction against conducting operations for the purpose of supporting any pattern of prices or yields in the Government securities market; it contained no language specifying that during periods of Treasury financing open market operations were to be conducted in such a manner as to change as little as possible prevailing money market conditions; and it contained no prohibition against "swap" transactions (i.e., offsetting purchases and sales of securities).

3. Statements of continuing operating policies and authority to effect transactions in intermediate- and longer-term securities.

The Federal Open Market Committee discontinued the three statements of operating policies that had been in effect since 1953 and were last reaffirmed by the Committee on March 22, 1960. This action was taken with the understanding that it would make unnecessary the special authorization permitting transactions in longer-term securities, adopted in February 1961 and renewed at each subsequent meeting, and this authorization was therefore not again renewed. The three discontinued operating policy statements read 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, Hayes, Balderston, Irons, Mitchell, Shepardson, Swan, and Fulton. Votes against this action: Messrs. King, Mills, Robertson, and Wayne.

The operating policy statements had been reviewed at the meeting of March 7, 1961, in accordance with the customary practice of reviewing all continuing authorities and statements of policy at the first meeting each year following the election of new members from the Federal Reserve Banks. At that time, pursuant to the recommendation of a Subcommittee, the Committee tabled consideration of possible changes pending a more comprehensive review of the appropriate form for such statements under present circumstances, including those associated with the operations recently begun in intermediate- and longer-term securities. Subsequently, Committee members gave extended consideration to alternative possible formulations of the statements and to the advantages and disadvantages of continuing them in some form. Further deliberations at this meeting culminated in the decision to discontinue the statements.

The language of the statements had reflected the Committee's expectation that departures from various of the individual policies described would be needed from time to time, and the Committee had in fact made such departures on several occasions. The most recent was the special authorization for transactions in longer-term Government securities first made in February 1961 and renewed at each subsequent meeting until December 19, 1961. In voting to discontinue the three statements of operating policies, it was the belief of the majority of the Committee that in the future greater latitude might be needed for adapting System operating techniques to changing circumstances than had

been required over most of the period since 1953, especially in view of the change in this country's international payments position.

The decision also reflected the belief of a Committee majority that some of the advantages seen earlier in having statements of operating policies were now considerably reduced in importance. The main purpose of the statements, when they were originally adopted in 1953 and reaffirmed in subsequent years, was to clarify the role of the Federal Reserve with respect to the Government securities market. During World War II and the postwar period up to the Treasury-Federal Reserve accord of March 1951, the System maintained the prices and yields of outstanding Government securities on a relatively fixed schedule, and in the 18 months following the accord the System continued actively to support Treasury financings. A majority of the Committee had believed the statements of operating policies served a major role in defining more clearly the System's operations in the Government securities market and in facilitating the transition from a supported to an unsupported market. But the transition had long since been successfully accomplished and a majority now felt that this purpose no longer provided a compelling reason for continuing formal statements of operating policies.

Another of the original purposes of the statements was to provide guidelines for open market operations undertaken on the Committee's behalf. At the time the statements were adopted in 1953 the Federal Open Market Committee met relatively infrequently—a minimum of four times a year, with occasional additional meetings—and in the relatively long intervals between meetings responsibility for effectuating policy lay with the executive committee. Along with other types of instructions, the operating policy statements were considered to serve a useful function in providing guides for the executive committee and the Account Management. Since mid-1955, however, when the executive committee was discontinued, the full Committee had been meeting regularly at short intervals—usually every 3 weeks

—and it had been able to maintain close direction over the conduct of operations. In these circumstances the majority felt that the importance of the operating policy statements as guides for operations was also considerably reduced.

The decision to discontinue the statements of operating policies related solely to the desirability of continuing to have such statements; it was not a decision to change the basic position of the System in relation to the Treasury or the market. The action was taken with the recognition that the bulk of open market operations would, in the nature of the case, continue to be in short-term securities; with the understanding that decisions about operations in securities of all maturities would continue to be made by the Committee in light of prevailing circumstances; and with the understanding that the Committee had no intention of pegging Government security prices, or of creating artificial market conditions at times of new security offerings by the Treasury.

Those voting against the action to discontinue the statements felt that the balance of advantages and disadvantages still favored the retention of statements in some form. It was pointed out that whether or not the Committee affirmed formal statements of operating policies, it would in effect still be acting in terms of certain rules, and there were some advantages in having these formalized even if the language admitted to a considerable degree of flexibility. The possibility that a complete elimination of the statements would have an adverse effect on the Government securities market was suggested.

Mr. Robertson's dissent was predicated on his beliefs that there should be Committee rules with respect to matters such as "swap" transactions, pegging operations, and the conduct of open market operations during periods of Treasury financing and that they should be formally set out. He also felt that the Committee should return to its previous policy of confining operations to short-term securities. In his view: (1) the operation that the Committee had launched in February 1961, including transactions in longer-term securities under the special authoriza-

tion, had not been successful in raising short-term and lowering long-term rates; (2) had the operation been pushed to the point necessary to achieve what he understood to be these twin goals, its defects would now be obvious; and (3) the deleterious effects of such operations on the market for long-term securities will become more apparent when the Treasury seeks—as it sometime must—to extend the maturity structure of the Federal debt by attempting to sell long-term securities for cash or in exchange for maturing securities. Furthermore, he believed that while it was possible for the Federal Reserve to acquire longer-term securities without impeding Treasury operations in a period such as 1961, when Treasury financing was chiefly short-term, the sale of such securities would present real problems. In his view such selling action would not only absorb long-term funds from the limited supply but would also aggravate the uncertainties which already plagued the long-term market, weakening its supporting structure and attenuating its appeal to investors. He could not foresee any time, when monetary policy called for absorbing reserves, that the Federal Reserve could sell longer-term securities from its holdings without impairing the ability of the Treasury to lengthen the debt. This, he thought, would be unfortunate, in view of the real need for the Treasury to achieve a more manageable maturity distribution of the public debt. Accordingly, he believed that operations in securities beyond the short-term area should be terminated immediately.

Mr. Mills, in dissenting, stated that it was his disposition to retain the operating policy statements in their present form, and to continue the special authorization for transactions in longer-term securities, but to modify the terms of the latter to allow continued operations in Government securities with maturities up to 2 years. It was his judgment that operations in securities in this maturity range may have had some limited success in holding up the short-term rate structure—a desirable end for balance of payment reasons—and while the apparent benefits may have been illusory to some extent, it was reasonable to attempt further experimentation. He believed that transactions in

longer-term securities had been harmful in that the market had come to regard them as patent efforts to support the market rather than as a means of influencing interest rates and that such transactions had set the stage for a full-fledged pegging operation. In his view, operations in any Government securities other than Treasury bills had the disadvantage of impairing the usefulness of the market as a sounding board for recording economic and financial movements.

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As indicated by the foregoing record, the policy directive of the Federal Open Market Committee in effect at the beginning of 1961 was aimed at encouraging monetary expansion for the purpose of fostering sustainable growth in economic activity and employment, while taking into consideration current international developments. During the course of the year the directive was changed four times. The first change occurred on April 18, when a directive was adopted that provided for operations with a view to encouraging expansion of bank credit and the money supply so as to contribute to strengthening of the forces of recovery that appeared to be developing in the economy, while giving consideration to international factors. On June 6, the qualifying words "that appear to be developing in the economy" were dropped from the directive. The next change was on August 22, when a directive was adopted that called for open market operations with a view to encouraging credit expansion so as to promote fuller utilization of resources, while giving consideration to international factors. This directive was renewed at subsequent meetings until December 19, when the Open Market Committee decided to institute a procedure of issuing both a current economic policy directive and a continuing authority directive. The text of each of the two directives issued on December 19 is quoted in full in the policy record entries for that date.