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 are entries with respect to the policy actions taken at the 19 meetings of the Federal Open Market Committee during the calendar year 1962, including the votes on the policy decisions made at those meetings as well as a resume of the basis for the decisions, as reflected by the minutes of the Committee.

It will be noted from the record of policy actions that in some cases the decisions were by unanimous vote, and that in other cases dissents were recorded. 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.

As explained in the record of policy actions, in 1962 the Federal Reserve System entered into a program of foreign currency operations, in which connection the Federal Open Market Committee issued certain authorizations, guidelines, and directives.

Both the Manager of the System Open Market Account and the Special Manager of the Account for foreign currency operations attend the meetings of the Committee and obtain guidance for the conduct of their operations.

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. During the year 1962 the Bank operated in the area of domestic open market operations under two separate directives from the Open Market Committee—a continuing authority directive and a current economic policy directive, this separation of directives having been decided upon by the Committee at its meeting on December 19, 1961, for reasons set forth on pages 91-94 of the Board's ANNUAL REPORT for 1961. At the beginning of the 1962 calendar year, the continuing authority directive was in the form set forth in the policy record entry for the meeting on January 9, 1962. This directive was changed only once during the year, as described in the policy record entry for the meeting on March 6, 1962. On the other hand, the current economic policy directive was changed frequently during the course of the year, as shown in the respective policy record entries The current economic policy directive that was in effect at the beginning of 1962 instructed the Federal Reserve Bank of New York as follows:

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 actions shall be taken to reduce unduly the supply of reserves or to bring about a rise in interest rates.

January 9, 1962

Authority to effect transactions in System Account.

The domestic economic situation, as it appeared from national and regional reports at this first meeting of the Federal Open Market Committee in 1962, continued to be characterized by growth in output and spending, stability in average prices, and a reduced but still relatively high level of unemployment. There was a continuing sizable deficit in the U.S. balance of payments.

Domestically, preliminary data indicated that the industrial production index for December would show a further 1 or 2 point rise to 115-116 per cent of its 1957 average. While total construction activity dipped in December from its sharply advanced November rate, it remained at a high level and, within the total, private residential construction continued to rise. Retail sales had moved up vigorously in October and November, and department store sales in December were at record levels. Automobile sales, however, declined from their high November levels. Incomplete evidence on price developments in December suggested continued stability in the averages. It appeared that the seasonally adjusted unemployment rate in December remained at about the level of 6.1 per cent to which it had dropped in November from the rates near 7 per cent that had persisted through most of 1961.

Bank credit increased sharply in December, with the rise in loans close to or above the record increase of December 1960. At year-end the money supply (conventionally defined to include currency in circulation and privately held demand deposits) was 3 per cent larger than at the beginning of the year and had shown an annual rate of increase of over 6 per cent since August. Incomplete figures for the week ended January 3 showed a rather large decline in loans and investments at city banks, and it was not clear at the time of the meeting whether the sharp December expansion was a transitory development or was indicative of a longer-run tendency. Short-term money market rates rose somewhat to their highest levels since mid-1960, while long-term bond yields remained fairly steady after their advances of November and early December.

Shortly before this meeting the Treasury had announced plans to raise between $1.5 billion and $1.75 billion in new cash during the month of January, partly by offering $2 billion in 1-year bills to replace $1.5 billion in such bills maturing during the month, and partly by a supplementary cash financing the terms of which were to be announced later.

With respect to the U.S. balance of payments, what evidence there was of developments in December indicated continued deterioration in this country's position. Although December balance of payments figures had usually shown some improvement because of year-end debt payments by foreign countries to the U.S. Treasury, preliminary and fragmentary figures for December 1961 indicated a deficit of about the same magnitude as in the two preceding months. The net decline in the gold stock in the fourth quarter, although only about half that in the last quarter of 1960, exceeded the total for the first 9 months of 1961.

It was the judgment of the Committee that both the economic situation and the desirability of maintaining an "even keel" in the money market during the period of the Treasury financing warranted making no change for the coming 2 weeks in the basic policy that had been decided upon at the previous meeting of the Committee (December 19, 1961). Accordingly, 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 monetary conditions consistent with the needs of an expanding domestic economy, taking into account this country's adverse balance of payments as well as the Treasury financing calendar.

To implement this policy, operations for the System Open Market Account during the next 2 weeks shall be conducted with a view to main-

taining current money market conditions, without action to alter the level of interest rates.

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

No change was made in the continuing directive, first adopted at the meeting on December 19, 1961, when new procedures calling for separate continuing and current economic policy directives were instituted. The continuing directive, which remained in effect, read as follows:

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, to the extent necessary to carry out the 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 (including forward commitments, but not including such special short-term certificates of indebtedness as may be purchased from the Treasury under paragraph 2 hereof) shall not be increased or decreased by more than $1 billion during any period between meetings of the Committee;

(b) To buy or sell prime bankers' acceptances 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.

January 23, 1962

1. Authority to effect transactions in System Account.

Available evidence indicated little change in the basic economic situation in the 2-week period since the previous meeting of the Committee. While the demand for bank loans appeared to have moderated somewhat following the large increase in December, an expansion in domestic activity evidently was continuing, with prices generally stable. There appeared to be enough unused capacity to accommodate a further increase in production without creating strong pressures on resources or prices.

In the period since the previous meeting, and particularly in the past week, there had inadvertently been a somewhat greater degree of monetary ease than was contemplated by the Committee, as indicated by some downward drift in Treasury bill rates from the levels reached early in the month, lower Federal funds rates, and a relatively large volume of free reserves. This situation had resulted mainly from unexpectedly high levels of Federal Reserve float and a greater than seasonal decline in required reserves.

An announcement was expected on February 1 of the terms of a Treasury financing to be carried out later in the month, and the Committee considered it desirable to maintain steady money market conditions during the financing. There was some senti-

ment at the meeting for moving toward a moderately less easy monetary policy in the period before the financing, in view of the continued expansion of the domestic economy and the persisting deficit in the U.S. balance of international payments. An opposing view was also expressed, however, reflecting a judgment that current domestic developments made any firming actions less appropriate than they might have appeared earlier. On balance, the Committee favored no change in the basic monetary policy that had been in effect for the past several weeks, and the following current economic policy directive was issued to the Federal Reserve Bank of New York:

It continues to be 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 monetary conditions consistent with the needs of an expanding domestic economy, taking into account this country's adverse balance of payments as well as the Treasury financing calendar.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall be conducted with a view to maintaining a supply of reserves adequate for further credit expansion, while minimizing downward pressures on short-term interest rates. In view of the imminence of Treasury financing, emphasis shall be placed on maintaining a steady money market.

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

2. Authority for program of System foreign currency operations.

At this meeting the Federal Open Market Committee approved a motion that the Committee go on record as favoring in principle the initiation on an experimental basis of a program of System foreign currency operations; that representatives of the Committee be authorized to explore with the U.S. Treasury, on behalf of the Committee, needed guidelines for actual operations, drawing on the experience of the Treasury Stabilization Fund, and to develop plans for effective working relations in the foreign exchange field between the Federal Reserve and the

Treasury; and that Chairman Martin be authorized to refer to this development in his testimony before the Joint Economic Committee scheduled for January 30, 1962.

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

(Note: See Record of Policy Actions taken by the Committee on February 13, 1962, for entry covering the action of the Committee instituting the program of foreign currency operations through the approval of certain authorizations, guidelines, and directives.)

February 13, 1962

1. Authority to effect transactions in System Account.

Reports at this meeting suggested that, while the prospects for continued economic expansion remained good, there had been some recent hesitation in the forward movement of the economy. Retail trade figures showed slight declines from the advanced November level in both December and January after adjustment for usual seasonal changes, and preliminary indications were that the industrial production index for January would be not above—possibly below—the December figure. In surveys of consumer buying intentions the demand for automobiles appeared stronger than a year earlier, but this was counterbalanced by apparent weakness in demand for household durable goods. A slight further reduction in the unemployment rate was attributed to lack of growth in the labor force rather than to strength in employment. Prices continued stable.

Total loans and investments of commercial banks had declined about the usual seasonal amounts in recent weeks, after the large December increase. On balance, during the past 2 or 3 months bank credit continued to show a moderate expansion, when allowance was made for the wide seasonal movements occurring around the turn of the year. The most striking develop-

ment in banking since the year-end was a sharp increase in time deposits, accompanied by a smaller but substantial decline in demand deposits, after seasonal adjustment. In the last half of January the conventionally defined money supply was about $1 billion less than in the second half of December on a seasonally adjusted daily average basis, and about 2.5 per cent larger than in the comparable period of the preceding year. The total of the money supply and time deposits at commercial banks, however, was about 7 per cent above a year earlier.

Interest rates for the most part remained firm. Treasury bill rates declined less than seasonally after rising more than seasonally in December, yields on medium- and long-term U. S. Government securities generally maintained the higher levels reached in December or early January, and high-grade corporate bond yields continued to show little change. Yields on State and local government bonds declined sharply, however, apparently partly as a result of heightened bank interest in longer-term tax-exempt issues as a medium for investment of their growing time deposits. Yields on long-term U.S. Government bonds exceeded those on high-grade municipals by the largest margin in many years.

In the money market, Federal Reserve float declined from the high levels that had been partly responsible for an unanticipated degree of market ease prior to the January 23 meeting of the Committee. Open market operations since then had been directed mainly at maintaining steady conditions while the Treasury completed its scheduled refunding. There were reports at this meeting that the Treasury might engage in an advance refunding operation shortly.

With respect to the international accounts, incomplete data indicated that net transfers of gold and dollars to foreigners declined sharply in January and early February from the average fourth-quarter rate. The accounts still showed an adverse balance, however, and remained a source of serious concern. Net gold sales to foreigners evidently were continuing to run in the neighborhood of $100 million per month.

After considering these domestic and international developments, the Committee concluded that it would be appropriate to continue its recent credit policy for the coming 3 weeks. On the one hand, domestic developments did not appear to be of such nature as to require a shift toward greater ease. On the other hand, the apparent pause in the forward progress of the economy militated against a move toward lesser ease such as might have otherwise been indicated on the basis of balance of payments considerations. The possibility of a Treasury advance refunding also was a factor in favor of holding the posture of monetary policy unchanged. Accordingly, the Committee issued the following current economic policy directive to the Federal Reserve Bank of New York:

It continues to be 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 monetary conditions consistent with the needs of an expanding domestic economy, taking into account this country's adverse balance of payments as well as a possible Treasury financing.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall be conducted with a view to maintaining a supply of reserves adequate for further credit expansion, while minimizing downward pressures on short-term interest rates. In view of the possibility of a Treasury financing, emphasis shall be placed on maintaining a steady money market.

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

2. Authority for program of System foreign currency operations.

Since March 1961 the U.S. Treasury, through its Stabilization Fund and with the Federal Reserve Bank of New York acting as agent, had been conducting foreign exchange operations as part of a cooperative effort by treasuries and central banks on both sides of the Atlantic to create a first line of defense against disorderly speculation in the foreign exchange markets. For several months prior to this meeting the Federal Open Market Committee had been studying the question of the desir-

ability of instituting a program of Federal Reserve operations in foreign currencies, which would be supplemental to and in collaboration with the activities of the Treasury. At the Committee meeting on January 23, 1962, a motion had been approved (with Messrs. Mitchell and Robertson dissenting) favoring in principle the initiation of such a program on an experimental basis. That motion also authorized representatives of the Committee to consult with the Treasury for the purpose of exploring guidelines for such operations, in light of the recent Treasury experience, and developing plans for effective working relations in this field between the Treasury and the Federal Reserve. The results of the discussions that had been authorized were reported at this meeting. Accordingly, after further deliberation the Committee approved, effective immediately, an authorization regarding open market transactions in foreign currencies, a statement of guidelines for System foreign currency operations, and a continuing authority directive on System foreign currency operations. The authorization, the guidelines, and the continuing authority directive, in the form in which they were adopted by the Committee, are shown at the conclusion of this policy record entry. As to each of the items, the vote of the Committee was as follows:

Votes for the action: Messrs. Martin, Balderston, Irons, King, Mills, Mitchell, Robertson, Shepardson, Swan, Wayne, Fulton, and Treiber. Votes against the action: None.

Although Messrs. Mitchell and Robertson had dissented at the meeting on January 23, 1962, from the motion approving in principle the initiation of a program of System foreign currency operations, they voted affirmatively on the actions taken at this meeting. Their affirmative votes were on the ground that the actions taken by the Committee at this meeting involved merely the implementation of a basic decision that had already been made by a majority of the Committee.

Mr. Mitchell's dissent at the January 23 meeting from the motion favoring in principle the initiation of a program of System foreign currency operations had been based on his belief that the institution of any such program by the System should be preceded by analysis by outside experts, public discussion, and legislative clarification of the System's statutory authority to acquire, hold, and sell foreign currency assets.

Mr. Robertson's dissent had been based on both legal and economic considerations. He regarded the legality of the proposed operations in foreign currencies as questionable, inasmuch as the Federal Reserve Act provided no general and positive authorization therefor. He felt that an *incidental* power—such as the power to maintain foreign accounts—should not be relied upon as an authorization to exercise the broad policy functions contemplated by this proposal. Furthermore, he believed the operations would be inconsistent with the express intent of Congress to confer upon the Treasury's Exchange Stabilization Fund a limited authority for operations to stabilize the exchange value of the dollar. Over and above such questions as to authority, Mr. Robertson thought it would be unwise for two separate agencies of the U.S. Government to be engaged in buying and selling foreign exchange, and he felt that the balance of considerations clearly favored any such operations being conducted by the Treasury.

Mr. Robertson also believed that a number of practical economic factors argued against instituting Federal Reserve operations in foreign currencies. Acquisitions by the United States of foreign exchange in such operations would be matched by an increase in foreign claims on the dollar. With the U.S. balance of payments currently in deficit, and with foreign recipients of increased dollar claims already taking a portion of such increases in gold, actions that would add to such dollar claims would run the risk of aggravating rather than minimizing the drains on U.S. gold reserves. In the foreign exchange markets themselves, he felt that any continual central bank intervention could have damaging influences upon private market processes, perhaps stimulating new phases of speculative activities and doing more to reduce confidence in the dollar than the reverse. He believed

that the best defense of the dollar consisted of continuance of Treasury maintenance of a fixed buying and selling price for gold, accompanied, if necessary, by action by the Exchange Stabilization Fund (augmented, if desirable, by congressional appropriation) on any occasions of dangerously disorderly foreign exchange markets, and undergirded by sound policies designed to eliminate unsustainable deficits in the U.S. balance of payments.

The majority of the Open Market Committee favored initiation of an experimental program of System foreign currency operations on the ground that such operations held the promise of being useful in accomplishing the basic purposes and specific aims set forth in the Authorization of the Committee, as cited hereinafter. As to the question of legal authority, the majority noted an opinion of the Committee's General Counsel, which had been concurred in by the General Counsel of the Treasury and the Attorney General of the United States, that the Federal Reserve Banks were authorized under existing law to engage in open market transactions in foreign exchange subject to the direction and regulation of the Federal Open Market Committee and, for this purpose, to open and maintain accounts with foreign banks subject to the consent and under regulations of the Board of Governors of the Federal Reserve System.

The documents hereinbefore referred to as having been approved by the Federal Open Market Committee at this meeting were as follows:

Authorization Regarding Open Market Transactions in Foreign Currencies

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

I. Role of Federal Reserve Bank of New York

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

II. Basic Purposes of Operations

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

(1) To help safeguard the value of the dollar in international exchange markets;

(2) To aid in making the existing system of international payments more efficient and in avoiding disorderly conditions in exchange markets;

(3) To further monetary cooperation with central banks of other countries maintaining convertible currencies, with the International Monetary Fund, and with other international payments institutions;

(4) Together with these banks and institutions, to help moderate temporary imbalances in international payments that may adversely affect monetary reserve positions; and

(5) In the long run, to make possible growth in the liquid assets available to international money markets in accordance with the needs of an expanding world economy.

III. Specific Aims of Operations

Within the basic purposes set forth in Section II, the transactions shall be conducted with a view to the following specific aims:

(1) To offset or compensate, when appropriate, the effects on U.S. gold reserves or dollar liabilities of those fluctuations in the international flow of payments to or from the United States that are deemed to reflect temporary disequilibrating forces or transitional market unsettlement;

(2) To temper and smooth out abrupt changes in spot exchange rates and moderate forward premiums and discounts judged to be disequilibrating;

(3) To supplement international exchange arrangements such as those made through the International Monetary Fund; and

(4) In the long run, to provide a means whereby reciprocal holdings of foreign currencies may contribute to meeting needs for international liquidity as required in terms of an expanding world economy.

IV. Arrangements with Foreign Central Banks

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

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

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

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

V. Authorized Currencies

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

VI. Methods of Acquiring and Selling Foreign Currencies

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

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

VII. Participation of Federal Reserve Banks

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

VIII. Administrative Procedures

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

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

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

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

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

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

IX. Special Manager of the System Open Market Account

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

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

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

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

X. Transmittal of Information to Treasury Department

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

XI. Amendment of Authorization

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

Guidelines for System Foreign Currency Operations

1. Holdings of Foreign Currencies

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

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

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

2. Exchange Transactions

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

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

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

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

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

3. Transactions in Spot Exchange

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

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

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

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

4. Transactions in Forward Exchange

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

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

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

5. Exchange Rates

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

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

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

CONTINUING AUTHORITY DIRECTIVE
ON SYSTEM FOREIGN CURRENCY OPERATIONS

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations issued by the Federal Open Market Committee on February 13, 1962:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs

Total foreign currencies held at any one time shall not exceed $500 million.

March 6, 1962

1. Authority to effect transactions in System Account.

The data on the domestic economy presented at this meeting showed mixed tendencies and suggested in general that the hesitation noted at the preceding meeting was continuing. There evidently was some modest improvement in employment in February, and the seasonally adjusted unemployment rate declined to 5.6 per cent from 5.8 per cent in the previous month. Construction activity was off slightly from a January level that had been revised downward since earlier reports. February production figures were available as yet for only a few products, including steel ingots and automobiles, both of which showed declines. It appeared likely, however, that the over-all index of industrial production in February would recover the 1 point loss of January, or at least would not decline. New orders received by manufacturers of durable goods had risen to a new high in January and were appreciably above sales in that month.

Partial figures for banks in leading cities suggested that total bank credit might have increased in February, after adjustment for usual seasonal changes. Time deposits at commercial banks continued to expand rapidly, although the rate of increase probably was not so high as earlier. Demand deposits increased on a seasonally adjusted basis in the first half of the month, but the situation in the second half was still uncertain.

The Treasury extended the maturities of about $5 billion of its securities in an advance refunding operation during the latter part of February, after refunding some $11 billion of maturing securities earlier in the month. The security markets also absorbed a substantial volume of new corporate issues and an exceptionally large volume of State and local government issues. Yields on high-grade corporate bonds continued to show little change, and those on long-term municipal bonds firmed at low relative levels in the second half of February after their earlier sharp declines. Long-term Government security yields declined somewhat in the latter part of the month but medium-term yields declined more, with the difference reflecting in part the shift of securities from the medium- to the long-term area in the advance refunding. Treasury bill rates also declined after the middle of February, but later rose somewhat.

Incomplete data on the U.S. international payments situation

suggested a marked improvement in the first 2 months of 1962, with the available figures indicating a deficit close to zero in January and relatively low in February. It was not clear, however, to what extent this improvement was real and to what extent transitory; many of the underlying figures, including those for exports and imports, were not yet available for the months in question. Some of the January improvement was due to a reversal of the earlier recorded outflow reflecting short-term lending, and some to a reversal of the year-end window dressing by foreign banks. It was noted that figures for the first quarter had appeared reassuring in 1961 also, and that there might be seasonal forces favoring the first-quarter picture.

There were no marked differences among Committee members with respect to the type of policy called for by these developments. However, some members while not advocating a substantial shift in policy, were impressed by the probability of continuing deficits in the international accounts and by the underlying elements of strength that they saw in the domestic economy. Therefore, they leaned toward a slightly reduced degree of ease. Others felt that in view of the recent domestic hesitation and the apparent improvement in the international accounts it would be appropriate to increase the degree of ease slightly, with less emphasis on minimizing downward pressures on short-term rates. The majority favored no change in policy, and at the conclusion of its deliberations the Committee voted unanimously to issue the following current economic policy directive to the Federal Reserve Bank of New York:

> In view of the continued underutilization of resources, and particularly of the evidence of some hesitation in the pace of business activity, it remains the current policy of the Federal Open Market Committee to promote further expansion of bank credit and the money supply, while giving recognition to the country's adverse balance of payments and the need to maintain a viable international payments system.
>
> To implement this policy, operations for the System Open Market Account during the next 3 weeks shall be conducted with a view to maintaining a supply of reserves adequate for further credit expansion, taking

account of the desirability of avoiding undue downward pressures on short-term interest rates.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, Mitchell, Robertson, and Shepardson. Votes against this action: None. (Mr. King stated subsequently that if he had been present at the point in the meeting when this action was taken he would have voted in favor of the directive.)

2. Review of continuing authorizations.

This being the first meeting of the Federal Open Market Committee after the election of new members from the Federal Reserve Banks for the year beginning March 1, 1962, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. Among other actions, it voted unanimously to reaffirm the authorization to the Federal Reserve Bank of New York covering open market transactions in foreign currencies and the continuing authority directive for these operations, both of which were first adopted at the meeting of February 13, 1962, and are quoted in the entry for that date. The Committee also decided to consolidate the substance of its previous continuing authority directive covering operations in U. S. Government securities and bankers' acceptances, first adopted on December 19, 1961, with that of several separate authorizations last reaffirmed on March 7, 1961. The latter included authorizations relating to repurchase agreements in Government securities, transactions in bankers' acceptances, the rate to be charged on special certificates of indebtedness purchased directly from the Treasury, and the effecting of transactions on a cash as well as a regular delivery basis. Accordingly, the following new continuing authority directive was issued to the Federal Reserve Bank of New York:

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

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

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

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

2. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York to purchase directly from the Treasury for the account of the Federal Reserve Bank of New York (with dis-

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

Mr. Robertson dissented from the foregoing action for the same reasons that he dissented on December 19, 1961, from the adoption of the continuing authority directive. In substance, he felt that it was an inadequate directive, without sufficient guidance and restrictions. A detailed statement of his views is set forth on pages 93-94 of the ANNUAL REPORT of the Board of Governors for the year 1961.

March 27, 1962

Authority to effect transactions in System Account.

The domestic economic situation continued in February and early March to reflect expansion in over-all activity but at a much slower rate than in the final quarter of 1961. Some key monthly series, including industrial production and nonfarm employment, recovered in February following declines in January, and the unemployment rate declined slightly further. The decline in housing starts continued in February. Preliminary information indicated little change in retail sales, though with some evidence of more than a seasonal rise in department store and automobile sales appearing in the early weeks of March. Gross national product was tentatively estimated at an annual rate of $548 billion to $550 billion for the first quarter of 1962, compared with $542 billion in the fourth quarter of 1961.

The performance of the economy thus far in 1962 appeared sluggish in relation to the high rates of increase that had been projected in late fall and early winter, and in relation to what was needed for satisfactory reduction in levels of unemployment.

To some extent this sluggishness appeared attributable to temporary factors, such as unusually severe weather conditions.

The slower rate of economic expansion had been reflected in credit markets. Bank loan expansion had been large, but not unusually so for the March tax period. Bank investments in U. S. Government securities had declined more than usual for this time of year, but holdings of other securities had increased. While time deposits at banks continued to show sharp gains, demand deposits, seasonally adjusted, appeared to be little changed.

The volume of public offerings of corporate and municipal securities had not been so large during March as in February, but those offered had been generally well received and a larger volume appeared in prospect for April. Prices of common stocks had shown little net change, with trading volume moderate.

Despite the fact that the money market had been relatively firm because of seasonal and liquidity needs, yields on U.S. Government and other fixed-income securities declined. Yields on long-term Treasury bonds dropped below 4 per cent for the first time since November 1961, and average yields on 3-5 year issues were the lowest since May 1961. Treasury bill yields had declined from mid-February levels but remained close to the 1961 highs reached at the end of the year. Rates on Federal funds were generally at or only slightly below 3 per cent. Free reserves had averaged a little lower in March than in February, partly because of a tendency for actual reserve levels to turn out below projections. In addition, intermittent downward pressures on short-term interest rates exercised some restraining influence on System operations to supply reserves.

Preliminary information on the U.S. balance of payments in the first quarter suggested a marked reduction in net payments as compared with the fourth quarter of 1961, but the deficit appeared slightly larger than in the first quarter of 1961. The improvement from the preceding quarter apparently reflected mainly a smaller volume of short-term capital outflows, partly for technical reasons related to year-end window-dressing operations by banks abroad. The trade surplus, judging by the

January data (the latest available), was running below both the fourth quarter and the first quarter of 1961.

The outflow of gold approximated $300 million in the current quarter, although some part of that amount might be viewed as offset by an increase in U.S. holdings of foreign convertible currencies. Reductions in the United Kingdom bank rate suggested a decrease in British interest-rate levels, but it was not clear whether or to what extent funds hitherto attracted to the United Kingdom would flow to New York.

Differences among Committee members with respect to the type of policy called for by these developments were generally small. Most members felt that the balance of payments situation continued to call for a domestic interest-rate structure that would not encourage outflows of funds, and thus were concerned about the declining tendency in interest rates. This tendency, it was noted, might well be accentuated by continuing to provide reserve availability to facilitate expansion in bank credit domestically, which most members also regarded as desirable. Some of the members, having in mind the modest nature of the expansion in domestic activity, were inclined to ease slightly. A few members, in fact, would have preferred taking more decisive easing action, but one member recommended a policy of less ease. The majority, however, concluded that on balance no significant change in policy should be made. The two changes made in the wording of the current economic policy directive were intended to make clear that the general policy in effect in the preceding period and now being continued was designed to effect slightly more expansion in reserve availability than had actually developed. The policy directive issued to the Federal Reserve Bank of New York read as follows:

In view of the modest nature of recent advances in the pace of economic activity and the continued underutilization of resources, it remains the current policy of the Federal Open Market Committee to promote further expansion of bank credit and the money supply, while giving recognition to the country's adverse balance of payments and the need to maintain a viable international payments system.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall be conducted with a view to maintaining a supply of reserves adequate for further credit and monetary expansion, taking account of the desirability of avoiding sustained downward pressures on short-term interest rates.

Votes for this action: Messrs. Martin, Balderston, Bryan, Ellis, Mitchell, Robertson, Shepardson, Clay, Scanlon, and Treiber. Vote against this action: Mr. Mills.

Mr. Mills dissented on the ground that the long maintained high level of free reserves had forced excessive liquidity into the economy and thereby had laid the foundation for future inflationary difficulties. Moreover, he felt that monetary policy by its declared purpose of holding interest rates on Treasury bills at a level intended to deter transfer of funds abroad had set a floor under bill rates and, in his opinion, had encouraged speculative operations in all maturities of U.S. Government securities. Mr. Mills felt that these and other difficulties could have been avoided by policy objectives geared solely to providing adequate credit availability—an amount that would have resulted in a somewhat firmer interest-rate structure but which still would have permitted sufficient bank credit expansion. He believed that the assumption that there must be close coordination between growth in the money supply and growth in gross national product was erroneous, and monetary policy should pay close attention to encouraging constructive commercial bank lending and investing practices.

April 17, 1962

Authority to effect transactions in System Account.

Information regarding developments in the domestic economy that had become available in the period since the preceding meeting of the Committee provided some definite signs of improvement. However, uncertainties remained about the course of developments in a number of strategic areas, such as residential and other construction, consumer durable goods other than autos, and business investment in new plant and equipment. For residential building, March statistics on the number of housing units started had not yet become available, but starts in February had shown a further decline to a relatively low level.

The Board's industrial production index was reported to have risen 1 point further in March to a new high of 116 per cent of the 1957 average. Nonagricultural employment and the length of the factory workweek also increased in March, and the rate of unemployment edged down from 5.6 per cent to 5.5 per cent of the civilian labor force. The labor force, however, was no higher than a year earlier, and resumption of normal growth in the labor force in the near future might limit declines in unemployment even under conditions of expanding employment. Sales of new autos had picked up considerably in March and early April, and sales at department stores also had risen.

Commodity prices had continued to show little change in the weeks immediately preceding this meeting. Announcement of the recision of the rise in steel prices served to reduce whatever expectations there might otherwise have been of imminent upward general price changes, but the view was expressed that this action might have added to uncertainties of a different sort. Stock market prices had declined in early April, while markets for fixed-income securities had continued strong.

Bank reserves available as backing for private deposit expansion and total bank credit had both increased more than seasonally since the March 27 Committee meeting. Free reserves in the past 3 weeks had averaged moderately higher than in the preceding period, while total reserves and required reserves had increased substantially after a sluggish performance in February and March. Time deposits at banks continued to increase sharply, and available information indicated that savings in other financial institutions had also continued to increase. Demand deposits had moved upward, following several weeks of little change, and the seasonally adjusted money supply was indicated to have risen in the first half of April.

Yields on 3-month Treasury bills continued to fluctuate in a narrow range as increased demands in credit markets and additions to weekly bill offerings counteracted a steady investor demand for short-term securities. Federal funds remained in the 2¾ to 3 per cent range. Yields on longer-term Treasury issues declined further. Despite a large volume of new financing in March and a prospectively larger volume in April, yields on corporate and municipal bonds continued at the low levels reached earlier or declined further. Mortgage rates also drifted down further.

The balance of payments situation in March, and fragmentary indications for early April, suggested little or no improvement. The March deficit was estimated at $360 million, including net gold sales of $150 million, and was higher than for January and February combined. The trade surplus in February had been quite large, with exports at a record annual rate of nearly $22 billion and imports continuing at $15.75 billion. The rate of outflow of capital remained large in March but was smaller than in the final quarter of 1961. There was in prospect a heavy calendar of foreign security issues in the U.S. market.

The majority of the Committee members agreed, although with some differences of interpretation and emphasis, that no change was indicated at this time in monetary and credit policy or in the wording of the current directive, particularly in view of the imminence of a substantial Treasury financing program. As a result, the Committee issued a current economic policy directive to the Federal Reserve Bank of New York in the same form as the directive issued at the meeting on March 27, 1962.

Votes for this action: Messrs. Martin, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Mitchell, Robertson, and Shepardson. Vote against this action: Mr. Hayes.

Mr. Hayes dissented because he felt that the degree of liquidity of the economy, coupled with recent signs of a somewhat improved rate of business expansion, would warrant placing a little more emphasis on the troublesome international aspects of the country's current economic problems. He noted that the country's ability to withstand heavy balance of payments deficits and accompanying gold drains was not unlimited and that he had yet to see any convincing evidence of a real turn in the tide. He expressed particular concern about the volume and breadth of foreign borrowing in the United States, both from banks and through bond offerings. In these circumstances, he felt that the System should edge toward a moderately less easy reserve position, thus encouraging the development of a somewhat higher structure of interest rates, particularly short-term rates.

Another member of the Committee (Mr. Mills) continued of the view he had expressed at previous meetings that a firming of policy was indicated. At the moment, however, he felt that the imminent Treasury financing precluded policy changes such as he had advocated.

May 8, 1962

Authority to effect transactions in System Account.

The economy had continued to register moderate gains in over-all activity, with little change in commodity prices. One factor of significant improvement was a sharp rise in March in the number of new housing units started, following 4 months of decline of much more than seasonal proportions. Another was the expansion of business plans for fixed capital outlays, as reported by a recent survey. This survey indicated a prospective rise in such outlays of 11 per cent for 1962, as compared with a rise of 8 per cent reported by a different survey taken several weeks earlier. Although data had not yet become available for total retail sales and industrial production in April, incomplete weekly and other information suggested moderate further advances. There was no significant change in the rate of unemployment.

Less favorable to economic prospects were the early indications of corporate profits for the first quarter. Although substantially above year-earlier levels, such profits had apparently failed to hold the rise achieved in the fourth quarter of 1961. Also, the volume of new orders received by durable goods producers had declined somewhat further in March from the advanced level reached at the beginning of the year. Stock market prices continued to decline.

Bank reserves available to support private deposit expansion had risen more than seasonally in April. Excess reserves had increased, while the small amount of member bank borrowing had been further reduced. Free reserves averaged moderately higher than in March. Total bank loans and investments rose again in April, with the sharpest increase in bank holdings of securities other than U.S. Governments. Both total and business loans had shown moderate strength.

The seasonally adjusted money supply, which increased somewhat in March, rose substantially further in April. Time and savings deposits at commercial banks had continued to rise, but at a somewhat less rapid pace than in other recent months.

Capital market financing had accelerated in April, and new corporate issues were substantially above the first-quarter average. Municipal issues held at the relatively high first-quarter average. Both corporate and municipal issues were expected to be in smaller volume in May.

Money markets had been generally steady in the 3 weeks preceding the meeting. Federal funds were traded in the 2½-3 per cent range, with the bulk of the trading at 2¾ per cent. Yields on U.S. Government securities had been unusually stable, while yields on corporate and municipal bonds had continued to edge lower.

In the first quarter of 1962, the U.S. balance of payments position was far more favorable than in the preceding quarter (partly reflecting seasonal factors), but less favorable than in the first quarter of 1961. The balance of payments deficit dropped sharply between March and April, but some of the improvement appeared to have been temporary, probably reflecting movements of capital from Canada preceding the abandonment of flexible exchange rates and the establishment on May 2 of a new par value of 92.5 U.S. cents for the Canadian dollar.

Economic expansion in Western Europe was reported as continuing, possibly at an accelerated rate, while conditions elsewhere appeared to have shown little change.

Upon consideration of these mixed developments, it was the majority view that the current posture of monetary policy continued to be appropriate, pending the availability of further information on the strength of the improvement in economic conditions and on the state of business and financial confidence. Accordingly, the Committee re-issued the current policy directive to the Federal Reserve Bank of New York that had been issued at the two preceding meetings of the Committee.

Votes for this action: Messrs. Martin, Balderston, Bryan, Deming, Ellis, Fulton, King, Mitchell, Robertson, Shepardson, and Treiber. Vote against this action: Mr. Mills.

In dissenting from this action, Mr. Mills took the position that a protracted period of credit ease featured by heavy Federal deficit financing through the banking system had developed an increasingly unsatisfactory financial situation that urgently required remedial attention. In his opinion, policy actions were called for that, by moderately reducing the supply of reserves and by simultaneously shifting emphasis away from pegging the level of Treasury bill rates, would facilitate return to a free market concept for the conduct of monetary and credit policy. The kind of policy revision which he visualized would, in Mr. Mills' belief, result in a somewhat firmer interest-rate structure that would serve as an incentive for broader private investment in approaching offerings of new issues of Treasury securities, thereby implying less resort to Federal deficit financing through the banking system, and would also be regarded abroad as a desirable central bank action for countering this nation's balance of payments problems.

May 29, 1962

1. Authority to effect transactions in System Account.

Following improvement in April, some additional gains in economic conditions were indicated for May. The April index of industrial production moved 1 percentage point higher to a record 117 per cent of the 1957 average, and the index for May appeared likely to hold at that level or rise slightly further.

A major exception to the moderately improved performance of the domestic economy was the continued decline in stock market prices. On May 28, the day preceding the meeting of the Committee, stock prices broke sharply and at the close had fallen to a level 24 per cent below the high reached in December 1961. In addition, and almost apart from the stock market decline and its possible ramifications, questions were being raised about the strength of general economic prospects over the months ahead. Certain leading business cycle indicators, including data on profit margins and business purchasing policies, were being interpreted by some analysts as signs that economic expansion would not continue long.

Bank loans rose more than seasonally during May, while investments were little changed. Further increases occurred in real estate and consumer loans, but security loans declined. Loans to construction firms had been moving up briskly since March, paralleling the pick-up in building activity.

Bank reserves required to support private deposits declined considerably more than seasonally in the first 3 weeks of May, in contrast with a larger than seasonal rise in April. Average free reserves, however, continued relatively high and were not significantly different from the April level.

Recent developments in the U.S. balance of payments, although still unsatisfactory, were viewed as mildly encouraging. However, gold and foreign exchange markets, after having been relatively quiet for some time, recently had shown some nervousness with consequent unfavorable effects on the U.S. dollar.

Economic activity abroad continued satisfactory in most industrially developed countries and mixed elsewhere.

There was some opinion within the Committee that monetary policy had contributed about as much as it could to domestic economic expansion and that a gradual reorientation of policy toward somewhat less ease would be salutary from the balance of payments standpoint without significantly affecting the domestic use of credit. A view also was expressed, however, that the degree of ease that had prevailed was still needed to facilitate further domestic expansion.

In recognition of the sharp decline in the stock market, there was general agreement that no change of policy should be made at this meeting of the Committee. It was thought desirable, however, to modify the wording of the current policy directive, principally to make clear that the Committee recognized the stock market decline as a factor contributing to its decision to continue policy unchanged at this point. Accordingly, the Committee issued the following current economic policy directive to the Federal Reserve Bank of New York:

In view of the modest nature of recent advances in the pace of economic activity, the continued underutilization of resources, and the uncertainties created by the disturbed conditions in some financial markets, it remains the current policy of the Federal Open Market Committee to promote further expansion of bank credit and the money supply, while giving recognition to the country's adverse balance of payments.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall be conducted with a view to maintaining a supply of reserves adequate for further credit and monetary expansion, taking account of the desirability of avoiding sustained downward pressures on short-term interest rates.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Mitchell, Robertson, and Shepardson. *Votes against this action:* None.

2. Authority to purchase and sell foreign currencies.

As originally adopted by the Federal Open Market Committee on February 13, 1962, and reaffirmed on March 6, 1962,

the continuing authority directive to the Federal Reserve Bank of New York with respect to System foreign currency operations did not authorize the purchase and sale of Belgian francs. In view of the prospective execution of a reciprocal currency (swap) agreement between the Federal Reserve and the National Bank of Belgium, in addition to those already entered into by the System with other foreign central banks, the continuing authority directive was amended as follows, effective immediately, to add the Belgian franc to the list of currencies authorized to be purchased and sold:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations issued by the Federal Open Market Committee on February 13, 1962:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs
Belgian francs

Total foreign currencies held at any one time shall not exceed $500 million.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Mitchell, Robertson, and Shepardson. *Votes against this action:* None.

June 19, 1962

Authority to effect transactions in System Account.

Available economic information confirmed the further moderate gains in activity in May suggested by the incomplete data available at the May 29 meeting. The index of industrial production rose to a record 118 per cent of the 1957 average from 117 per cent in April. Private housing starts also rose further in

May, following a sharp advance in April. Nonagricultural employment showed a small additional gain, and the unemployment rate was down slightly.

The sharp stock market break at the end of May was followed by additional declines in the first part of June. Department store and auto sales apparently were affected somewhat unfavorably in early June by the stock market reaction, but it was too early to judge whether economic activity as a whole would be significantly affected.

Total commercial bank credit rose again in May and early June. The demand for business loans, however, continued moderate. Reserve availability appeared ample, and banks continued to seek outlets for their funds among foreign as well as domestic borrowers. Federal funds were traded at 2.75 per cent most of the time, while the 3-month Treasury bill rate ended the 3-week period slightly above 2.70 per cent. Yields on Treasury notes and bonds showed no decisive trend.

The U.S. balance of payments position continued to be unsatisfactory. Although the deficit all but disappeared in May and, according to tentative and partial figures, in the first half of June, much of the improvement appeared to have reflected an inflow of funds traceable to flight from the Canadian currency. While the U.S. gold stock had not suffered any decline for 5 weeks, gold and foreign exchange markets remained nervous, particularly with respect to the dollar.

In view of the continuing concern for the international position of the dollar and the further, even though gradual, improvement in the domestic economy, a majority of the Committee concluded that a time had been reached when a slightly less easy monetary policy was indicated. The substantial degree of liquidity existing in the banking system was noted, and doubt was expressed whether continued additions to reserve availability at more than a moderate rate would induce additional gains for the domestic economy. A minority of the Committee weighed the balance of domestic and foreign considerations somewhat differently from the majority and were in favor of continuing undiminished the current degree of monetary ease.

Reflecting the majority view that monetary policy should shift toward slightly less ease, the following directive was issued to the Federal Reserve Bank of New York:

It is the current policy of the Federal Open Market Committee to permit the supply of bank credit and money to increase further, but at the same time to avoid redundant bank reserves that would encourage capital outflows internationally. This policy takes into account, on the one hand, the gradualness of recent advance of economic activity, the availability of resources to permit further advance in activity, and the unsettlement of financial markets resulting from the sharp decline in stock prices. On the other hand, it gives recognition to the bank credit expansion over the past year and to the role of capital flows in the country's adverse balance of payments.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall, to the extent consistent with the behavior of financial markets, be conducted with a view to providing a somewhat smaller rate of reserve expansion in the banking system than in recent months and to fostering a moderately firm tone in money markets.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, Mills, and Shepardson. Votes against this action: Messrs. King and Robertson.

Mr. King's dissent was based on the view that recent stock market developments had reduced economic visibility to such an extent that it would be unwise to change policy in the least. He would have preferred to wait until there was a clearer indication of the direction in which the economy might turn.

Mr. Robertson noted that, in view of the labor and material resources still unutilized, greater domestic expansion was needed and could be readily accommodated without inflationary consequences. The recent stock market break, he pointed out, had added a further degree of uncertainty to economic prospects, and in his view the improvement recently achieved in the U.S. balance of payments offered an opportunity for monetary policy to accord a higher priority to domestic goals. In his judgment, this was the wrong time to shift toward a policy calling for any lesser degree of monetary ease.

June 21, 1962

Authority to purchase and sell foreign currencies.

At this meeting, held by telephone, the continuing authority directive to the Federal Reserve Bank of New York with respect to System foreign currency operations, as adopted by the Federal Open Market Committee on February 13, 1962, and amended May 29, 1962, was further amended, effective immediately, to add the Canadian dollar to the list of foreign currencies that the New York Bank was authorized and directed to purchase and sell. This action was taken in view of the imminent prospect of a reciprocal currency (swap) agreement being entered into between the Federal Reserve System and the Bank of Canada as part of a broad package of financial assistance—including assistance from the International Monetary Fund, the Bank of England, and the U.S. Export-Import Bank—designed to reinforce the Canadian Government's efforts to defend the Canadian dollar against a speculative wave that threatened to force the Canadian dollar off its recently established par value. As amended, the continuing authority directive read as follows:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations issued by the Federal Open Market Committee on February 13, 1962:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs
Belgian francs
Canadian dollars

Total foreign currencies held at any one time shall not exceed $500 million.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Robertson, and Shepardson. Votes against this action: None.

July 10, 1962

1. Authority to effect transactions in System Account.

Economic activity, as interpreted in reports at this meeting, appeared to be in a period of hesitation. Although advances had continued in May and early June, they tended to be smaller than in earlier months, and adverse trends were reported for some key series. The unemployment rate, for example, was up slightly in June.

Retail sales, which were off slightly in May, appeared on the basis of weekly data to have declined again in June. Business inventory accumulation continued in April and May, but at sharply reduced rates. On the other hand, a survey conducted in late June indicated that business plans for new plant and equipment outlays this year were still largely unchanged, suggesting that they had not been adversely affected by the decline in stock prices. Construction activity continued to rise in June, with gains widely spread among major types of construction.

A principal feature of financial developments since the June 19 meeting was the less easy tone in the money market. The 3-month Treasury bill rate rose to just under the Reserve Bank discount rate (3 per cent), and Federal funds traded at the discount rate most of the time. Yields also had risen on municipal and corporate bonds as well as on U. S. Government bonds. Member bank borrowing at Federal Reserve Banks increased moderately, and free reserves of member banks were somewhat lower than in the preceding 3 weeks.

Bank credit outstanding increased in June, with the increase centered more in loans than investments; the loan increase was widely distributed among types of loans. Loans to brokers and others against stock market collateral, however, declined considerably. Effective July 10, 1962, margin requirements for stock market credit were reduced from 70 per cent to 50 per cent by the Board of Governors of the Federal Reserve System.

The international financial situation remained unsatisfactory as the dollar weakened further in international exchange, and gold markets became more active. The balance of payments continued its improved position, and transfers to foreigners of gold and other liquid assets in the second quarter were considerably smaller than in the first quarter. To an extent as yet undetermined, however, it appeared that much of the improvement might have been due to the large Canadian reserve losses. With the Canadian position becoming stabilized, some reversal of flows in favor of Canada was expected.

Members of the Committee were in general agreement that domestic economic expansion had lost much of its momentum since spring, and some question was raised as to whether the cyclical upswing, which began in early 1961, might be topping out. At the same time, continuing concern was expressed about the U. S. international financial situation.

Within the Committee, there were some differences of emphasis and interpretation in relating domestic and international developments to current monetary policy. The consensus, however, was for continuation of the degree of ease contemplated by the policy adopted at the June 19 meeting. A minority view placed greater emphasis on the advantages of an easier policy for stimulating the slackened rate of expansion in domestic activity and questioned the usefulness of a less easy policy for dealing with current international financial problems.

In order to make clear that no further reduction from the present degree of ease was intended, the wording of the current policy directive was modified to clarify that intent. Accordingly, the following directive was issued to the Federal Reserve Bank of New York:

It is the current policy of the Federal Open Market Committee to permit the supply of bank credit and money to increase further, but at the

same time to avoid redundant bank reserves that would encourage capital outflows internationally. This policy takes into account, on the one hand, the gradualness of recent advance in economic activity, the availability of resources to permit further advance in activity, and the unsettlement of financial markets. On the other hand, it gives recognition to the bank credit expansion over the past year and to the role of capital flows in the country's adverse balance of payments.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall, to the extent consistent with the behavior of financial markets, be conducted with a view to providing moderate reserve expansion in the banking system and to fostering a moderately firm tone in money markets.

Votes for this action: Messrs. Martin, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Shepardson, and Treiber. Votes against this action: Messrs. Mitchell and Robertson.

In dissenting from this action, Mr. Mitchell expressed the view that the behavior of the economy indicated sufficient danger of another abortive recovery to call for a more stimulative monetary policy. Since the domestic economic outlook had been worsening and the balance of payments position had been improving, an easier monetary policy seemed to him both desirable and feasible. He did not agree that monetary ease had been pursued so far that it would be useless to expect further easing to do any good. Interest rates did not indicate this to be the case. Moreover, bank credit expansion had not been excessive. Effective credit expansion was, in his judgment, less than shown in the statistics because the change in Regulation Q effective as of the first of this year, permitting higher rates on time and savings deposits, had resulted in shifting some funds to commercial banks from other financial intermediaries.

Mr. Mitchell felt that even the slight move toward lesser ease at the preceding meeting had had unfavorable repercussions on yields. He also doubted that moderately higher short-term rates would in fact significantly improve the balance of payments position. In the circumstances, he favored a policy directed toward increasing free reserves and permitting bill yields to fall—perhaps to 2.5 per cent—which would add to downward pressure on longer-term yields.

Mr. Robertson, who dissented for the same reasons he had expressed at the June 19 meeting, stated that he was in full agreement with Mr. Mitchell's position. He felt that the economic information presented to the Committee indicated that the date of such meeting was precisely the wrong time for adopting a less easy monetary policy and that the move should now be reversed.

2. Authority to purchase and sell foreign currencies.

The continuing authority directive to the Federal Reserve Bank of New York with respect to System foreign currency operations, as adopted by the Federal Open Market Committee on February 13, 1962, and most recently amended by the Committee on June 21, 1962, was further amended at this meeting, effective immediately, to increase from $500 million to $750 million the maximum amount of foreign currencies authorized to be held at any one time. By this date, reciprocal currency (swap) agreements totaling $450 million had been entered into by the Federal Reserve System with five foreign central banks—the Bank of France, the Bank of England, the Netherlands Bank, the National Bank of Belgium, and the Bank of Canada; and there was in prospect the execution of similar agreements with the Bank for International Settlements, the Swiss National Bank, and the German Federal Bank that would, if executed, raise the total U.S. dollar equivalent of foreign currencies involved in such agreements to $700 million. In addition, the System held some $33.5 million equivalent of foreign currencies acquired from the Treasury Stabilization Fund at the outset of the Federal Reserve program of foreign currency operations.

As amended, the continuing authority directive read as follows:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations issued by the Federal Open Market Committee on February 13, 1962:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders
Swiss francs
Belgian francs
Canadian dollars

Total foreign currencies held at any one time shall not exceed $750 million.

Votes for this action: Messrs. Martin, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Mitchell, Robertson, Shepardson, and Treiber. Votes against this action: None.

July 31, 1962

Authority to effect transactions in System Account.

Incomplete and scattered data for July suggested mild improvement in the economy, following indications of a slackened pace of expansion in June. The unemployment rate was down slightly, auto and department store sales recovered to about the May levels, and early clues as to the course of industrial production offered hope of some increase. On the other hand, manufacturers' appropriations for fixed capital purposes were indicated to have declined in the second quarter.

In credit and money markets the atmosphere was one of considerable uncertainty. Bank credit, seasonally adjusted, declined substantially in July, partly because Treasury cash financing was much smaller than usual for that month. Security loans for all purposes were sharply lower. Business loan demand showed little change, while bank holdings of real estate loans and of securities other than U.S. Governments continued to increase substantially.

The private money supply, although aided by shifts from Government to private deposits, remained at roughly the level that had been maintained since late 1961. Time and savings deposits (not included in the money supply, as conventionally defined) apparently continued to grow in July, but at a slower pace than earlier in the year. Because of smaller demand deposit growth, reserves required to support private deposits, after moving up during the first 3 weeks of July, turned down again in the latest week. Free reserves had shown large week-to-week fluctuations since the preceding meeting of the Committee but had averaged about $450 million. Money market conditions, however, had been slightly less easy than might have been expected with that average level of free reserves; Federal funds traded mostly in the 2¾-3 per cent range, while short-term Treasury bills fluctuated within the 2⅞-3 per cent range.

The over-all balance of payments deficit for the second quarter turned out to have been larger than estimated earlier. Much of the improvement from the first quarter reflected a temporary capital inflow stemming from deterioration of confidence in the newly established rate for the Canadian dollar. The outlook for the third quarter appeared to be for little or no improvement in the U.S. payments position, partly because it would be adversely affected by the reflow to Canada that was beginning to set in following the provision of special credits to Canada by the International Monetary Fund, the United States, and the United Kingdom. The London market for gold was unusually active, and official support to the market was heavy throughout much of the 3-week period preceding this meeting. On July 23 the President, in the course of a news conference that was telecast to Europe, reaffirmed the intent of the United States not to devalue its dollar. Thereafter, gold and foreign exchange markets were less active, and the position of the U.S. dollar in European centers improved.

A minority of the Committee favored a policy of greater monetary ease as a means of stimulating domestic economic expansion or of helping to stave off possible setback in the economy. However, the majority, after weighing such considerations as the continued evidence of adequate domestic liquidity on one side and the unsatisfactory prospects for the balance of payments on the other, and noting that a Treasury financing was currently in progress, concluded that an "even keel" policy was appropriate

for the forthcoming period. Accordingly, the current policy directive issued to the Federal Reserve Bank of New York was in the same form as the directive issued at the meeting on July 10, 1962.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, and Shepardson. Votes against this action: Messrs. Mitchell and Robertson.

In dissenting, Mr. Robertson expressed the view that greater recognition should be given to the possibility of deteriorating domestic economic activity, and that in present circumstances monetary policy could and should be providing additional stimulus. The accumulation of evidence suggested to him that the recent shift in policy toward less monetary ease was generating contractive reserve pressures. He regarded this as incurring real risks in pursuit of illusory benefits; he had seen no evidence of beneficial effects of higher U.S. money rates upon international gold and dollar flows that would justify the domestic economic hazards entailed, in his view, by such a policy. It seemed to him that a more liberal policy of encouraging further expansion in bank reserves, credit, and money, even if accompanied by easier money market conditions, would better serve the long-run objective of a growing, prosperous, and internationally competitive U.S. economy.

Mr. Mitchell dissented largely on the grounds set forth at the meeting on July 10. The economy was continuing to drift along in lacklustre fashion, and in his view the odds were long and lengthening against a vigorous advance in the last half of the year. He believed that a significant obstacle to further expansion in the domestic economy was a protracted imbalance in the money and capital markets created by the continuing effort to use monetary policy to deal with the balance of payments situation. According to his analysis, debt management and monetary policy had created a highly artificial situation in the money and capital markets by holding up the short-term money rate. This had created expectations that long-term rates would rise, despite a preponderance of historical and analytical evidence that they had passed their sustainable peak. He saw a serious threat to the domestic economy, which he felt should be recognized by supplying reserves somewhat more freely, by making it clear that there was no possibility of a discount rate increase under current conditions, and by being prepared to see the short-term rate decline by as much as half of a percentage point.

August 21, 1962

Authority to effect transactions in System Account.

Domestic economic developments in July, as reviewed by the Committee at this meeting, were more favorable than those in the immediately preceding months, and somewhat more favorable than had been suggested by evidence available at the preceding meeting of the Committee. Available data indicated widespread, if moderate, gains in activity. The industrial production index rose nearly a full point; new orders received by durable goods manufacturers rebounded sharply; and personal income, retail trade, and other important measures showed increases. Scattered figures for early August suggested that the July gains in production and sales were being maintained. On the less favorable side, housing starts failed to reverse the drop of June, and final figures for manufacturers' capital appropriations confirmed the sharp second-quarter curtailment that had been reported earlier. Also, while the seasonally adjusted rate of unemployment dropped slightly further in July to 5.3 per cent of the civilian labor force, the lack of growth in the labor force itself was viewed as a cause for concern.

Business loans at banks had apparently expanded somewhat in recent weeks, but the over-all private demand for bank credit continued to be relatively moderate. Required reserves and the money supply both declined in the first half of August, and there was a marked slowdown in growth of time deposits other than savings accounts. Yields on intermediate- and longer-term Treasury securities, which had risen in late June and early July, had declined substantially in the period since the end of July, and

heightened investor interest was apparent in all instruments from Treasury bills to long-term corporate bonds. One reason for the previous advance in yields had been the widespread belief that an early tax cut and a consequent substantial expansion of Federal debt were distinct possibilities. Correspondingly, a major factor in the decline in yields was the fading of this prospect, particularly after the President's statement on tax policy a week before the meeting. The Treasury was reported to be considering undertaking an advance refunding shortly after Labor Day, in view of the currently favorable market circumstances.

International payments of the United States in July were affected favorably by advance debt repayments on the part of France and Italy, and in July and early August were affected unfavorably by the reflux of funds to Canada. After allowance for these extraordinary factors, it appeared that the deficit in the payments balance was running at a rate smaller than in the third quarter of 1961 but larger than had been expected for the third quarter of 1962. It appeared to be at least as high as the adjusted second-quarter deficit, which also had been in excess of advance estimates. However, the position of the dollar in foreign exchange markets appeared to have improved somewhat, and private demand for gold in the London market evidently had declined.

In sum, recent domestic developments appeared moderately encouraging while those with respect to the balance of payments were disappointing; there continued to be substantial room for improvement on both fronts. A majority of the Committee concluded that, on balance, circumstances warranted a continuation of recent monetary policy. Accordingly, the following current policy directive, which reflected no change from the previous directive except to eliminate references to unsettled behavior in financial markets in view of the steadier performance of those markets, was issued to the Federal Reserve Bank of New York:

> It is the current policy of the Federal Open Market Committee to permit the supply of bank credit and money to increase further, but at the same time to avoid redundant bank reserves that would encourage capital

outflows internationally. This policy takes into account, on the one hand, the gradualness of recent advance in economic activity and the availability of resources to permit further advance in activity. On the other hand, it gives recognition to the bank credit expansion over the past year and to the role of capital flows in the country's adverse balance of payments.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall be conducted with a view to providing moderate reserve expansion in the banking system and to fostering a moderately firm tone in money markets.

Votes for this action: Messrs. Martin, Balderston, Bryan, Deming, Fulton, King, Mills, Shepardson, and Treiber. Votes against this action: Messrs. Mitchell and Bopp.

Messrs. Mitchell and Bopp dissented because they would have preferred a directive indicating a greater willingness to encourage monetary expansion, substantially like that adopted at the meeting of May 29, 1962. They thought that monetary policy could make a greater contribution to economic expansion without risking significantly adverse effects on the balance of payments. In their opinion, the virtual elimination of any prospect for a Federal tax cut in 1962 increased the importance of adopting a more stimulative monetary policy. Mr. Mitchell also expressed concern about the lack of growth in the money supply since November 1961 which, he felt, had interfered with economic expansion. In his view there had been no monetary expansion since late 1961. The rise in time deposits and total bank assets that had taken place thus far in 1962 was due to the growth of banks as savings institutions or financial intermediaries and not to monetary creation brought about by Federal Reserve policy. Recent policy, therefore, implicitly denied the need for the money supply to grow with an expanding economy.

September 11, 1962

Authority to effect transactions in System Account.

It appeared that the improved performance of the economy in July was not continuing. Reports to the Committee at this meet-

ing, based partly on preliminary estimates, indicated that industrial production and retail sales had leveled off in August. Also, the seasonally adjusted unemployment rate had risen to 5.8 per cent, although this was reportedly due in part to special or technical influences. Surveys of consumer buying intentions and of business plans for inventory restocking and capital outlays suggested little change or only moderate gains in spending over the coming months.

After contracting in July, bank credit expanded markedly in August and grew slightly further in early September. Nevertheless, private demand deposits declined substantially in August. Treasury balances remained unusually high, and time and savings deposits at commercial banks continued to grow but at their recently reduced pace. The conventionally defined private money supply was at a level about 1 per cent below that at the end of 1961, after allowance for usual seasonal variations.

Long-term security yields were steady in early September, after declining during much of August. An advance refunding operation undertaken by the Treasury was still in progress at the time of the meeting, with early indications that it was being well received.

The international economic scene was reported to have changed little in recent weeks, with the deficit in the U.S. balance of payments about the same in August as in July (after allowing for the sizable foreign debt prepayments in July). Preliminary figures for late August and early September suggested some improvement, but it was too early to tell whether they indicated a trend.

A majority of the Committee concluded that, in view of continued evidence of adequate domestic liquidity and continuing indications of unsatisfactory progress with respect to the balance of payments, monetary policy should remain unchanged for the next 3 weeks. It was recognized that maintenance of the same general atmosphere of credit availability might require somewhat larger amounts of bank reserves than earlier, because of the concentration of money market pressures arising from large dealer financing requirements connected with the Treasury refunding superimposed upon seasonal needs for funds associated with corporate tax and dividend payments. Because of these developments, it was agreed that the Account Manager would have to give particular emphasis to the tone and feel of the market in managing the System Account. The current policy directive issued to the Federal Reserve Bank of New York was as follows:

It is the current policy of the Federal Open Market Committee to permit the supply of bank credit and money to increase further, but at the same time to avoid redundant bank reserves that would encourage capital outflows internationally. This policy takes into account, on the one hand, the gradualness of recent advance in economic activity and the availability of resources to permit further advance in activity. On the other hand, it gives recognition to the bank credit expansion over the past year and to the role of capital flows in the country's adverse balance of payments.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall be conducted with a view to providing moderate reserve expansion in the banking system and to fostering a moderately firm tone in money markets.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, King, and Shepardson. Votes against this action: Messrs. Mills, Mitchell, and Robertson.

In explaining his dissent, Mr. Mills said that he considered the forestalling of further declines in the money supply to be an overriding necessity. In his view, therefore, a higher level of free reserves should be an objective of System policy. Mr. Mitchell dissented for reasons similar to those he had expressed at recent meetings. Mr. Robertson felt that greater monetary ease at this juncture could stimulate additional employment of resources domestically without prejudicing the international position of the dollar. In the credit field, he believed there was room for more aggressive loan competition among banks, at lower rates of interest. In his view, the ability of the economy to accommodate such additional credit stimulus was demonstrated, in part, by the relative absence of the kinds of credit abuses that could be engendered or remedied by changes in general credit controls. In

the field of public liquidity, he observed there was a clear need for renewed growth in the money supply. Although there had been times this year when the effects of a lagging money supply might have been cushioned by accelerated growth in time deposits and other liquid assets, such growth had since slowed. Furthermore, the channeling of private saving into financial claims, especially short-term Treasury securities, meant that the funds of businesses and consumers were being funneled into something less than the most stimulating channels, and Mr. Robertson felt that the prevailing interest-rate structure—fostered by existing monetary policy—must bear some of the responsibility for such a deflationary orientation of savings flows. He believed that greater monetary stimulation at this time—when there were unutilized human and material resources and when the gold stock was ample to protect against rumor-spawned speculative raids on the dollar—would contribute to a prosperous and more rapidly growing economy that would command renewed and more deeply rooted respect for both this country's economic system and its currency.

October 2, 1962

1. Authority to effect transactions in System Account.

Hesitation in the economy, apparent at the preceding meeting of the Committee, became clearer as final reports of August developments were examined, and the limited information available for September suggested little or no improvement in that month. The economy appeared rather delicately balanced between forces making for mild contraction and those making for further modest expansion. Unemployment, which rose in August to 5.8 per cent of the labor force, continued at that higher rate in September. Business psychology was appraised as not being optimistic; there was renewed weakness of stock market prices, and business fixed capital investment was indicated as lacking in vigor.

Consumer buying also was showing little significant change, with preliminary estimates suggesting a slight decline in total retail sales in September. Industrial commodity prices had not been rising, and wage increases were indicated to have been smaller than in earlier postwar expansions.

In the financial area, total bank credit expansion in August was fairly sizable and business loans showed somewhat more strength. Private demand deposits, which had declined in August, rose somewhat in the first half of September. Time and savings deposits continued to expand.

In capital markets, the volume of new municipal and corporate offerings was relatively light, and yields tended to slide off from summer levels. Yields on Treasury notes and bonds also tended downward, while 3-month bill rates ended the period at about the 2.75 per cent level, little changed from the start of the period. The effective rate on Federal funds continued in the 2.75-3 per cent area.

Improvement in the U.S. balance of payments this year was viewed as likely to be disappointingly small. In the first 3 quarters of the year, the deficit continued uncomfortably large and would have been even larger if substantial debt prepayments had not been received. Moreover, the deficit involved a greater gold loss than in 1961.

Some sentiment expressed during this meeting favored a modification of monetary policy in the direction of additional ease because of concern about the lack of vigor in the domestic economy. However, after taking into account the continuing balance of payments deficit as well as the supply of bank credit already available to meet credit demands, the majority view favored a continuation of current policy for the next 3 weeks. This policy contemplated that reserves needed for seasonal purposes would be supplied freely and that the Account Management, in conducting open market operations, would continue to be guided to a considerable extent by money market developments. The current policy directive issued to the Federal Reserve Bank of New York was in the same form as that issued at the meeting on September 11.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, and Shepardson. Votes against this action: Messrs. Mills and Mitchell.

Messrs. Mills and Mitchell concurred in the generally held view regarding the seriousness of the balance of payments problem. However, with the domestic economy operating below desired levels of resource utilization and future trends uncertain, they saw justification in moving toward a somewhat greater degree of monetary ease than was implied in a continuation of current policy, even though this might result in some downward pressure on short-term interest rates.

2. Authority to purchase and sell foreign currencies.

The continuing authority directive to the Federal Reserve Bank of New York with respect to System foreign currency operations, as originally adopted by the Federal Open Market Committee on February 13, 1962, and most recently amended by the Committee on July 10, 1962, was further amended at this meeting, effective immediately, to increase from $750 million to $1 billion the maximum amount of foreign currencies authorized to be held at any one time and to add the Austrian schilling to the list of foreign currencies that the New York Bank was authorized and directed to purchase and sell. At this date the Federal Reserve System had reciprocal currency (swap) agreements outstanding in the total amount of $700 million with the Bank of France, the Bank of England, the Netherlands Bank, the National Bank of Belgium, the Bank of Canada, the Bank for International Settlements, the Swiss National Bank, and the German Federal Bank. In addition, there was in prospect the execution of similar agreements with the Bank of Italy and the Austrian National Bank that, if entered into on the basis contemplated, would increase to $800 million the total U.S. dollar equivalent of foreign currencies involved in such arrangements. In addition, the System continued to hold a modest quantity of foreign currencies acquired from the Treasury Stabilization Fund at the outset of the Federal Reserve program of foreign currency operations.

As amended, the continuing authority directive read as follows:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations issued by the Federal Open Market Committee on February 13, 1962:

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

Total foreign currencies held at any one time shall not exceed $1 billion.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, Mills, Mitchell, and Shepardson. Votes against this action: None.

October 23, 1962

Authority to effect transactions in System Account.

During the evening preceding this meeting of the Committee, the President had announced emergency actions to deal with the crisis that had developed due to the build-up of offensive military weapons in Cuba. The crisis had become apparent suddenly, but in the short time available to receive reports it appeared that the reaction in markets was cautious, though nervous, with the result that no waves of selling or buying had developed. In the corporate security market one large financing proceeded as scheduled the morning of the meeting. The Special Manager of the System Open Market Account for foreign currency operations had

contacted the monetary authorities of major industrial countries by the time of the meeting, and those authorities stood prepared to coordinate such intervention in foreign exchange markets as might become necessary to cushion the impact of any unusual flows of funds that might develop internationally.

The Committee discussion reflected grave concern about possible consequences of the Cuban crisis, but until further information became available no change in monetary policy seemed called for on that account. Economic and financial tendencies, as they had been developing prior to the President's statement, had led to some comment in business and financial quarters about a possible early cyclical turndown in activity. While the general view was that information available to date did not support such a conclusion, at the same time it was clear that the economy at best had been moving sideways in recent weeks. The margin of unutilized manpower and industrial capacity continued large.

In financial markets the impact of the recently announced reduction by the Board of Governors of 1 percentage point in reserve requirements on time and savings deposits at member banks, to become effective shortly, remained to be seen, and the Cuban crisis rendered appraisal of the situation particularly difficult. Sluggishness in the economy, however, appeared to be generating an increasing volume of business and consumer liquidity without a corresponding change in private credit demands. As a consequence, both short- and long-term interest rates had continued to ease prior to the Cuban crisis.

The U.S. balance of payments position deteriorated in the third quarter and even more so in the first half of October. The net capital outflow on private account continued large, especially to Canada. Exports had declined in August contrary to expectations, and the export surplus was the smallest in many years. Increasing concern was reported about prospects for a continuation of economic expansion in Europe; if the European boom should be topping out, U.S. exports would be adversely affected.

In view of the uncertainties presented by the international crisis and the imminence of a Treasury refunding, there was unanimous agreement that no change should be made in policy at this meeting, although the Committee should be prepared to deal promptly with whatever problems might arise. While, as indicated, the policy decision was to maintain the status quo at this time, the wording of the current economic policy directive was changed to reflect awareness of the Cuban emergency situation and to take account of the forthcoming Treasury financing. As changed, the directive issued to the Federal Reserve Bank of New York read as follows:

It is the current policy of the Federal Open Market Committee to encourage moderate further increase in bank credit and the money supply, while avoiding money market conditions unduly favorable to capital outflows internationally. It is also the Committee's policy to cushion such unsettlement in money markets as may stem from international developments of an emergency or near emergency character. This policy takes into account the potential financial effects of the Government's quarantine on armament imports into Cuba, the imminence of a large Treasury refinancing, and the recent stability of economic activity, with a margin of underutilized resources and an absence of inflationary pressures.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall be conducted with a view to providing moderate reserve expansion in the banking system and to fostering a steady tone in money markets.

Votes for this action: Messrs. Martin, Hayes, Balderston, Deming, Ellis, Fulton, King, Mills, Mitchell, Shepardson, and Irons. Votes against this action: None.

November 13, 1962

1. Authority to effect transactions in System Account.

The Cuban crisis, although far from settled, had eased appreciably by the time of this meeting. While the performance of the domestic economy was still unsatisfactory in terms of utilization of manpower and other resources, the economic atmosphere appeared to have improved. The more encouraging domestic

indications included a high rate of auto sales in October following the introduction of new models; preliminary reports from the October survey of consumer buying plans showing increased strength in plans to purchase new cars and household durable goods; and the results of a recent survey of business plans for new plant and equipment outlays for 1963, showing a modest rise over the estimated 1962 total.

In most domestic financial areas a somewhat more stimulative tone had developed in October and early November. Bank credit had again expanded at a rapid rate in October. Business loan expansion continued larger than seasonal, following a strong showing in August and September. The money supply had risen appreciably in October, and there was a further rapid rise in time and savings deposits. Member bank borrowing from Reserve Banks continued moderate, and free reserves averaged above the $400 million level. The large consumer financial savings and corporate cash flows were sources of downward pressure on interest rates. Treasury, corporate, and municipal bond yields had receded during October to around the lows reached in the spring of the year. However, large Treasury financing operations and Federal Reserve open market operations had contributed by early November to raising short-term rates above the low levels of late October.

Preliminary information on the October balance of payments position of the United States was unfavorable, indicating an over-all deficit of $900 million or more. This was the largest for any month on record and more than double the third-quarter monthly average deficit, owing in part to extraordinary transactions including large transfers to Canada, a large royalty payment to Venezuela, and probably some outflow of U.S. funds caused by the Cuban crisis. Some improvement in the balance of payments was indicated for the first week of November. Despite the sharp deterioration in the October payments position, the dollar remained relatively steady in foreign exchange markets and no serious pressure developed in the London gold market, reflecting in part the increasingly close cooperation among leading central banks. Gold sales to foreigners in October were small in relation to the deficit in the balance of payments in that month.

Within the Committee, differences in views were more clearly marked than for some time as to the appropriate course for monetary and credit policy. Some members of the Committee favored moving in the direction of slightly less ease. Their views reflected serious concern about the balance of payments problem, which they believed could be alleviated to some extent by moderately higher interest rates in this country. They suggested that monetary ease had already provided ample liquidity to the domestic economy and that greater ease would be more likely to find expression in speculative tendencies and increased outflows of funds to other countries than in significant stimulation of economic expansion. On the other hand, other members of the Committee emphasized the protracted sluggishness in the domestic economic situation and the absence of inflationary tendencies. Also, they felt that small increases in interest rates would be of little help in dealing with the balance of payments problem. Hence, these members were inclined toward somewhat more ease than currently prevailed. A third group, constituting a majority of the Committee, felt that recent changes in domestic and international conditions had not yet been so pronounced as to call for any change at this time in the current Committee policy, which called for encouraging a moderate further increase in bank credit and the money supply, while avoiding money market conditions unduly favorable to capital outflows.

After extensive discussion of these various views, the following current economic policy directive was issued to the Federal Reserve Bank of New York:

In view of the recent stability of economic activity, with a margin of underutilized resources and an absence of inflationary pressures, it is the current policy of the Federal Open Market Committee to encourage moderate further increase in bank credit and the money supply, while avoiding money market conditions unduly favorable to capital outflows internationally. It is also the Committee's policy to cushion such unsettlement in money markets as may stem from international developments of an emergency or near emergency character.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall be conducted with a view to providing moderate reserve expansion in the banking system and to fostering a steady tone in money markets.

Votes for this action: Messrs. Martin, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Mitchell, and Robertson. Vote against this action: Mr. Hayes.

In voting on the directive, Messrs. Balderston and Fulton indicated that they would have preferred a lesser degree of ease, while Messrs. Mills and Mitchell indicated they would have preferred a greater degree of ease. They voted for the directive, however, on the ground that its wording would permit the degree of change that they would have preferred.

In voting against the adoption of the directive, Mr. Hayes called attention to the slightly better performance of the domestic economy in the recent period, the substantial recent increases in bank credit, the downward market pressures on interest rates of all maturities, and the lack of significant progress with regard to the balance of payments. In his view, with the international balance of payments problem so pressing, and with the nation's liquidity so ample, he could see no reason for pursuing a policy only slightly less easy than at the bottom of a recession nearly 2 years earlier. Accordingly, he advocated making a modest but definite move toward less ease.

2. Amendment of Authorization and Guidelines for System foreign currency operations.

The Committee's Guidelines for System Foreign Currency Operations and its Authorization Regarding Open Market Transactions in Foreign Currencies (approved on February 13, 1962, and reaffirmed on March 6, 1962) were amended in minor respects to provide for somewhat greater flexibility of operations and to provide expressly for reciprocal currency arrangements on a standby basis. The amendment in the Guidelines took the form of deleting certain words in the first paragraph of Section 2, Exchange Transactions, and inserting two subsequent paragraphs, with the result that the first three paragraphs of the Section were changed to read as follows:

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

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

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

The changes in the Authorization were in paragraph (1) of Section III, relating to specific aims of foreign currency operations. As amended, paragraph (1) provided that such operations were to be conducted, within the basic purposes set forth in Section II:

To offset or compensate, when appropriate, the effects on U.S. gold reserves or dollar liabilities of disequilibrating fluctuations in the international flow of payments to or from the United States, and especially those that are deemed to reflect temporary forces or transitional market unsettlement.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Mitchell, and Robertson. Votes against this action: None.

December 4, 1962

Authority to effect transactions in System Account.

A distinct improvement in business psychology had developed in the weeks preceding this meeting, although key measures of

economic activity continued to show little change from the levels existing since midyear. The change in business and financial sentiment both reflected and contributed to the sharp rise that had occurred in stock market prices since late October. Also, both sentiment and stock prices presumably had been influenced by the release of tension as the Cuban crisis eased, as well as by speculation about the effect of an anticipated tax reduction. Total retail sales advanced again in November. New car purchases were at a very high level, although below the October rate.

Other economic information becoming available since the preceding meeting of the Committee was mixed. The industrial production index in October remained at the level at which it had been since July. New orders received by durable goods producers rose in October, and new housing starts recovered most of their September decline. On the other hand, the rate of unemployment rose fractionally in November, returning to the high August-September level. Plans for business investment showed no change in outlays from the third to the fourth quarter, but indicated a small decline for the first quarter of 1963. Commodity price averages continued to register little change; the flurry of advances in some sensitive prices during the Cuban crisis had been largely reversed.

Total bank credit and business loan expansion remained strong. The private money supply in October and November rose sharply above the level existing for many months, and time and savings deposits also rose substantially further.

In contrast to bank credit, capital market financing continued light. Estimates for the fourth quarter indicated declines from a year earlier of one-fourth in corporate security offerings and of one-fifth in State and local financing.

Money markets continued generally steady, with interest rates, particularly in the short-term area, tending to move up slightly. It was noted that, beginning about mid-December and continuing for several months, seasonal forces would be working toward lower interest rates as demands for financing usually are low early in the year and the flow of investment funds normally is large.

The November balance of payments deficit was sharply lower than the record October figure, which had been affected considerably by temporary factors. For the year to date, however, the deficit was only a little short of that for 1961, and there was still no indication that the basic accounts in the payments balance had improved significantly. Foreign exchange and gold markets had remained calm in recent weeks, and the net gold outflow was small.

At this meeting, as at the preceding one, there were varied judgments as to the precise degree of monetary ease to be sought. A large minority—taking into account the relatively high level of domestic activity, the degree of liquidity in the economy and the banking system, and the desirability of help with the balance of payments problem—felt that it was important to follow a policy of slightly less ease. A smaller number of members, influenced more by the persistently low rates of manpower and other resource utilization, felt that a little more ease could help to stimulate domestic employment; this group also questioned whether slightly less ease could contribute significantly to the solution of the balance of payments deficit. After discussion, the majority of the Committee members, including in the end some of those who initially had indicated a preference for shadings of slightly more or slightly less ease, voted in favor of no change at this time from the policy adopted at the November 13 meeting. The wording of the current economic policy directive was changed to delete, as no longer needed, the reference to international emergency conditions contained in the last sentence of the first paragraph of the November 13 directive and to recognize the 2-week, instead of 3-week, interval before the next meeting. The policy directive issued to the Federal Reserve Bank of New York was as follows:

In view of the recent stability of economic activity, with a margin of underutilized resources and an absence of inflationary pressures, it is the

current policy of the Federal Open Market Committee to encourage moderate further increase in bank credit and the money supply, while avoiding money market conditions unduly favorable to capital outflows internationally.

To implement this policy, operations for the System Open Market Account during the next 2 weeks shall be conducted with a view to providing moderate reserve expansion in the banking system and to fostering a steady tone in money markets.

Votes for this action: Messrs. Martin, Balderston, Bryan, Deming, Ellis, Fulton, King, Mills, Mitchell, Robertson, and Shepardson. Vote against this action: Mr. Hayes.

Mr. Hayes voted against this directive for essentially the same reasons that he had opposed the directive at the previous meeting—namely, that in view of ample domestic liquidity and an unsatisfactory balance of payments situation a somewhat less easy policy was appropriate.

December 18, 1962

Authority to effect transactions in System Account.

Information that had become available in the 2 weeks since the preceding meeting of the Committee confirmed the mixed picture of the economic situation. The feeling of increased business optimism with regard to prospects appeared to be continuing, but evidence of solid additional achievement was still limited.

Retail sales, as expected, proved to be higher in November than in October; steel output rose; average weekly hours of work at factories increased; and new orders for machinery advanced again. Automobile sales continued relatively strong in November and early December, and stocks of cars in dealers' hands were low. Early Christmas buying, however, appeared to be somewhat disappointing. Industrial production in November remained unchanged, and nonagricultural employment showed no improvement, both being at about midyear levels. Wholesale commodity price averages continued unchanged.

Gross national product was estimated at a seasonally adjusted annual rate of $562 billion to $563 billion for the fourth quarter, compared with $555 billion in the third quarter. If realized, the fourth-quarter rate would be 4.5 per cent above a year earlier and 11 per cent above the preceding cyclical peak in the spring of 1960.

Bank credit continued to expand vigorously in November, although the rise was less rapid than in the preceding 3 months. The money supply rose substantially further and apparently continued upward in early December. Time deposits continued their rapid rise. Free reserves in the 2 weeks preceding this meeting were at the lowest level in 2 years, but their decrease apparently produced no undue restraining effect in central money markets. Short-term interest rates continued more or less stable, and member bank borrowing at the Reserve Banks held around the somewhat higher level reached in November.

A time of year was approaching when seasonal factors, which for some weeks had been exerting an upward influence on short-term rates, would normally begin to exert a downward influence. For this reason, a slightly firmer tone in money markets might become necessary if the current level of short-term interest rates were to be maintained.

The balance of payments deficit in November showed a sharp drop from the record level of October, when certain temporary factors were at work. In the first half of December the improvement observed in November seemed to continue. Gold and foreign exchange markets remained generally calm, and the monetary gold stock had not declined for several weeks.

The shadings of policy preference expressed at this meeting were relatively limited, with no Committee member recommending a decisive move in the direction of either more or less monetary ease. There continued to be some differences of opinion, however, as among policies of slightly more ease, slightly less ease, or the same degree of ease that had prevailed, the reasons for these views being largely the same as those expressed at other recent meetings. At those meetings, several members who supported a continuation of prevailing policy had at the same time expressed the view that a somewhat less easy policy might be appropriate after the economy had passed the peak of seasonal credit demand. This now proved to be the majority position.

The majority position took into account the anticipated downward pressures on short-term rates of a seasonal nature, it being felt that a continuation of the current degree of monetary ease in an environment of substantial seasonal decline in interest rates might have unfavorable effects, especially from the standpoint of the balance of payments. The majority also noted the relatively high rate of increase in bank reserves in recent weeks and the degree of liquidity in the economy. In their view, monetary and credit policy had made a significant contribution to the stimulation of domestic economic expansion.

The position taken by the minority reflected doubt that net capital outflows would be much affected by some seasonal easing of U.S. interest rates in the present slightly improved atmosphere in international financial markets. Those holding this view preferred to continue undiminished the prevailing financial stimulus to domestic activity.

To reflect the views of the majority, the current economic policy directive issued to the Federal Reserve Bank of New York was modified to read as follows:

It is the current policy of the Federal Open Market Committee to accommodate moderate further increases in bank credit and the money supply, while aiming at money market conditions that would minimize capital outflows internationally. This policy takes into account the lack of any significant improvement in the U.S. balance of payments and the recent substantial increase in bank credit, but at the same time recognizes the unsatisfactory level of domestic activity, the continuing underutilization of resources, and the absence of inflationary pressures.

To implement this policy, operations for the System Open Market Account during the next 3 weeks shall be conducted with a view to offsetting the anticipated seasonal easing of Treasury bill rates, if necessary through maintaining a firmer tone in money markets, while continuing to provide moderate reserve expansion in the banking system.

Votes for this action: Messrs. Martin, Hayes, Balderston, Ellis, Fulton, King, and Shepardson. Votes against this action: Messrs. Bryan, Deming, Mills, Mitchell, and Robertson.

Mr. Robertson, one of those who dissented from the action taken by the Committee, believed that it would be a mistake to undertake a firming of the money market simply in order to offset anticipated declines in Treasury bill rates. With the pace of domestic business activity still undesirably slow and short-term international financial flows less troublesome than earlier, he felt that it would be appropriate to maintain reserve availability at a level that would sustain a gradual further monetary expansion even if some seasonal decline in short-term interest rates developed.