RECORD OF POLICY ACTIONS OF THE FEDERAL OPEN MARKET COMMITTEE

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

In the pages that follow, there are entries with respect to the policy actions taken at the 19 meetings of the Federal Open Market Committee during the calendar year 1963, 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 instances the decisions were by unanimous vote and that in other instances 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.

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

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

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

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

(c) To buy U.S. Government securities with maturities of 24 months or less at the time of purchase, and prime bankers' acceptances with maturities of 6 months or less at the time of purchase, from nonbank dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities or acceptances in 15 calendar days or less, at rates not less than (a) the discount rate of the Federal Reserve

Bank of New York at the time such agreement is entered into, or (b) the average issuing rate on the most recent issue of 3-month Treasury bills, whichever is the lower; provided that in the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

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

The only revisions in this directive during the year affected the limit on changes in holdings of securities in the System Open Market Account during any period between meetings of the Committee, as specified in Section 1(a). As noted in the entries for the respective dates, this limit was raised to $1.5 billion on June 18, restored to $1.0 billion on July 30, again raised to $1.5 billion on October 1, and restored to $1.0 billion on November 12. The current economic policy directive was changed frequently during the year, as shown in the respective policy record entries. The current economic policy directive that was in effect at the beginning of 1963 instructed the Federal Reserve Bank of New York 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.

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

The authorization regarding open market transactions in foreign currencies in effect at the beginning of 1963 and throughout the year read as follows:

AUTHORIZATION REGARDING OPEN MARKET TRANSACTIONS IN FOREIGN CURRENCIES

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

I. Role of Federal Reserve Bank of New York

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

II. Basic Purposes of Operations

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

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

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

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

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

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

III. Specific Aims of Operations

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

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

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

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

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

IV. Arrangements with Foreign Central Banks

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

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

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

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

V. Authorized Currencies

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

VI. Methods of Acquiring and Selling Foreign Currencies

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

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

VII. Participation of Federal Reserve Banks

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

VIII. Administrative Procedures

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

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

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

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

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

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

IX. Special Manager of 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.

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

Guidelines for System Foreign Currency Operations

1. Holdings of Foreign Currencies

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

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

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

2. Exchange Transactions

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

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

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

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 cur-

rency 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.

Certain revisions were made in these guidelines at the meeting on May 28, as noted in the entry for that date.

The continuing authority directive with respect to foreign currency operations in effect at the beginning of 1963 was as follows:

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

This directive was amended on several occasions during the year, as noted in entries for various dates. In general, the effects of the amendments were (1) to add certain currencies to the list of foreign currencies in which transactions were authorized, (2) to specify certain additional purposes for which foreign currency transactions were authorized, and (3) to modify the amounts and the form of the dollar limitations specified for foreign currency operations.

January 8, 1963

1. Authority to effect transactions in System Account.

Domestic economic activity, although at record levels, remained lower than needed for the full utilization of existing manpower and industrial capacity. Industrial production and employment showed little change in December from the levels reached in mid-1962, while gross national product was estimated to have increased moderately further in the fourth quarter. Unemployment was estimated to have changed little from the advanced November rate. Department store and new automobile sales continued high, although they were below November levels. New orders for machinery and other equipment rose again in November. Commodity prices at wholesale continued stable in December, and consumer prices were unchanged in November.

In the financial area, yields on private and Government securities with a fixed return showed little net change in recent weeks. Offerings of corporate and State and local government securities were in moderate volume in December and were indicated to continue so in January. Stock market prices in December maintained the advanced levels reached following the Cuban crisis, and in early January rose further.

Seasonally adjusted commercial bank credit in December was estimated to have increased sharply further, about in line with the growth in other recent months. Bank loans continued to register a substantial increase. The conventionally defined money supply (currency in circulation and privately held demand deposits) rose sharply, and time and savings deposits increased substantially further. Required reserves of member banks averaged more than 3 per cent higher than in December 1961; for the past 4 months they had increased at a seasonally adjusted annual rate exceeding 9 per cent. Excess reserves and member bank borrowing from the Federal Reserve Banks both moved higher as banks made year-end adjustments in their reserve positions, with free reserves declining considerably, and the money market continuing relatively firm. In accordance with the current economic policy directive adopted at the preceding meeting (December 18, 1962), System operations since then had been conducted with a view to maintaining slightly less easy monetary conditions.

The U.S. balance of payments in the fourth quarter of 1962, apart from special receipts, was still in serious deficit, although not on a scale comparable with the large single-month deficit in October. Gold and foreign exchange markets had been relatively calm in recent weeks.

Differences of view with respect to monetary and credit policy, at least for the near future, were quite small at this meeting, with a general consensus in favor of continuing unchanged the policy of slightly less ease adopted at the December 18 meeting, to which credit markets had adjusted gradually and smoothly. Factors taken into account in arriving at the current policy consensus included the Treasury's $250 million bond offering to underwriters, other pending Treasury financing operations, and the lack of significant change in domestic economic conditions or in the international financial position of the United States.

After some discussion of the wording of the December 18 current policy directive, the phrasing of that directive—but not the substance—was changed somewhat. Accordingly, the following current policy directive was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate further, though more moderate, growth 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 significant improvement in the U.S. balance of payments and the recent substantial increases in bank credit, demand deposits, and the reserve base, but at the same time recognizes the modest progress of the domestic economy during 1962, the continuing underutilization of resources, and the absence of inflationary pressures.

To implement this policy, System open market operations during the next 3 weeks shall be conducted with a view to maintaining about the same degree of firmness in the money market that has prevailed in recent weeks and to offsetting seasonal downward pressures on short-term interest rates, while providing for moderate reserve expansion in the banking system.

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

Mr. Robertson, in dissenting, indicated that the Treasury financing program and the continued reserve expansion during the past 3 weeks inclined him toward a position of no change in policy at this time. However, he believed that primary emphasis should not be placed on maintenance of the Treasury bill rate and that no actions should be taken to tighten marginal reserve positions simply in order to resist a decline in the bill rate. Instead, primary emphasis should be placed on insuring the maintenance of an availability of reserves that would stimulate the domestic economy, and in his opinion the wording of the policy directive was inconsistent with this view.

2. Authority to purchase and sell foreign currencies.

The continuing authority directive to the Federal Reserve Bank of New York on System foreign currency operations, last amended October 2, 1962, was further amended, effective immediately, to increase from $1.0 billion to $1.3 billion the authorized maximum holdings of foreign currencies at any one time. 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, and amended November 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 $1.3 billion.

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

At this date reciprocal currency (swap) agreements totaling $900 million were outstanding on a standby basis with 9 foreign central banks and the Bank for International Settlements, as follows:

	(In millions of dollars)
Austrian National Bank	50
National Bank of Belgium	50
Bank of Canada	250
Bank of England	50
Bank of France	50
German Federal Bank	50
Bank of Italy	150
Netherlands Bank	50
Swiss National Bank	100
Bank for International Settlements	100

There were in prospect the execution of a similar agreement with the Bank of Sweden and an enlargement of certain of the existing swap facilities. In addition, the Federal Reserve held a modest quantity of certain foreign currencies that had been acquired from the U.S. Treasury Stabilization Fund at the outset of the Federal Reserve program of foreign currency operations in February 1962. In the circumstances it was considered appropriate to increase the maximum amount of foreign currencies authorized to be held at any one time.

January 29, 1963

1. Authority to effect transactions in System Account.

Statistics available indicated virtually no change in general domestic business conditions from 3 weeks and 6 weeks earlier. Through December industrial activity, nonagricultural employment, and wholesale prices continued at the levels of other recent months. Personal income and retail sales rose further to record levels in December; consumer prices edged down after having leveled off in the autumn. The number of housing units started and the volume of new orders received by producers of machinery and other durable goods declined in December from advanced levels. Partial data suggested that retail sales continued high in January, while the unemployment rate remained in the relatively high range where it had been for many months.

Most business and other projections, including those prepared by the Council of Economic Advisers, reflected caution in appraising economic prospects and suggested little likelihood of an upsurge in activity in 1963 sufficiently strong to bring about a significant reduction in the rate of unemployment.

In contrast to business activity, key financial indicators and projections showed a degree of strength that on occasion in the past had foreshadowed a pick-up in underlying economic activity. There was a further sharp rise in the seasonally adjusted money supply in the first half of January, although indications for the second half of the month were for some decline. Time deposits also rose substantially further in the first half of the month. Required reserves of member banks against private deposits were averaging somewhat higher during January than in December. Free reserves also were averaging somewhat higher, but the money market retained a moderately firm tone, with the 3-month bill rate holding slightly above the 2.90 per cent level.

Three major administration messages—economic, budget, and tax—that had been presented to the Congress since the January 8 meeting, emphasized fiscal and other efforts to stimulate economic growth, and this emphasis contributed a note of caution to bond markets and strength to the stock market. Yields on U.S. Government and some other fixed-interest-return securities rose a little, on balance, from their levels in early January. Common stock prices continued the rise of recent months on sizable trading volume, and at the time of this meeting had recovered two-thirds of their decline from December 1961 to June 1962. Corporate security financing in January was indicated to be smaller than in December, while municipal financing was estimated to be larger.

Weekly indicators of U.S. monetary reserves and liquid liabilities suggested an over-all deficit of as much as $500 million in the U.S. balance of payments for the month of January. The prolonged dock strike possibly contributed to the enlarged deficit, but unusually large outflows of capital—particularly long-term—appeared mainly responsible. Purchases of foreign securities, including large purchases of new Canadian issues, were substantial in January. In addition, some U.S. dollar time deposits were placed in Canadian banks. Gold and foreign exchange markets remained generally quiet.

Members of the Committee were in agreement that no change in policy should be undertaken in the 2 weeks intervening before the February 12 meeting. Influential factors included the large imminent Treasury refunding operation, the lack of observable

change in domestic business activity, the large expansion in bank credit and money during recent months, and the deterioration in the U.S. balance of payments. Members of the Committee combined these considerations in varying proportions in their evaluations of policy action. But even for those who otherwise might have preferred to shift policy a little, the desirability of maintaining an "even keel" position during the Treasury financing was controlling.

The economic policy directive was re-worded somewhat to recognize the forthcoming Treasury financing and otherwise to make it represent more precisely the currently available facts and Committee considerations. Accordingly, the current directive was issued to the Federal Reserve Bank of New York in the following form:

It is the Committee's current policy to accommodate growth in bank credit and the money supply more moderate than in recent months, while aiming at money market conditions that would minimize capital outflows internationally. This policy takes into account the recent deterioration in the U.S. balance of payments and the recent substantial increases in bank credit, demand deposits, and the reserve base, but at the same time recognizes the limited progress of the domestic economy in recent months, the continuing underutilization of resources, and the absence of inflationary pressures.

To implement this policy, and in view of the forthcoming Treasury financing, System open market operations during the next 2 weeks shall be conducted with a view to maintaining about the same degree of firmness in the money market that has prevailed in recent weeks and to offsetting downward pressures on short-term interest rates, while providing for continued moderate reserve expansion.

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

2. Authority to purchase and sell foreign currencies.

The Committee had authorized, on December 4, 1962, the negotiation of a reciprocal currency (swap) agreement between the Federal Reserve and the Bank of Sweden, and the consummation of a $50 million agreement was announced on January 17, 1963. The consummation of the agreement was accompanied by the addition of Swedish kronor to the list of foreign currencies that the Committee's continuing directive on foreign currency operations authorized the Federal Reserve Bank of New York to purchase and sell in accordance with the guidelines on System foreign currency operations originally issued by the Committee on February 13, 1962, and amended on November 13, 1962. The amendment of the continuing authority directive to add Swedish kronor to the list of foreign currencies was ratified at this meeting.

February 12, 1963

Authority to effect transactions in System Account.

The domestic economic situation at the time of this meeting was little changed from other recent months. Exceptionally inclement weather in many areas affected business activity, as did several important labor disputes. Industrial production, nonagricultural employment, and unemployment in January had about equaled their December levels and were approximately the same as in mid-1962. New orders for durable goods declined again in December. Retail sales were estimated to have been fractionally lower in January than in December but well above levels of the past summer. Automobile sales, however, were higher than in December. The length of the work week in manufacturing had declined further in January. Average hourly earnings of factory workers were unchanged in January and were less than 2 per cent above a year earlier, a small increase as compared with other postwar years. Corporate profits apparently rose appreciably in the fourth quarter of 1962.

The seasonally adjusted money supply declined slightly more in the second half of January than it had risen in the first half, but for the month it averaged somewhat higher than in December. The rate of growth of time and savings deposits accelerated somewhat during January. Seasonally adjusted bank credit rose further, with the rise concentrated in security holdings. Total reserves, as well as required reserves against private deposits, had declined over the 3 weeks preceding this meeting. Free reserves also had declined, and member bank borrowings from Federal Reserve Banks had averaged somewhat higher. The money market had firmed a little in the past 2 weeks, with yields on 90-day Treasury bills varying in a range between 2.93 and 2.96 per cent, and the Federal funds rate at or just under the discount rate of Federal Reserve Banks.

Capital market financing for February was indicated to be somewhat above the moderate volume in January owing to a considerably larger volume of municipal financing. The February Treasury refunding was regarded as highly successful, and the market was now awaiting an advance refunding operation which the Treasury had indicated would be forthcoming.

Stock market prices, which had risen further in January on active trading, showed little additional rise in early February. Yields on U.S. Government, municipal, and corporate bonds had risen somewhat during the past few weeks as investor caution increased.

The over-all deficit in the U.S. balance of payments was now estimated for the month of January at about $400 million, a somewhat better showing than indicated by reports at the January 29 meeting. Foreign bond issues and private placements in the U.S. market reached a large volume. Gold and foreign exchange markets were generally quiet, but the pound sterling and the Canadian dollar weakened in late January and early February as a result of political developments.

The Committee was unanimously of the view that no change should be made in monetary policy from that followed in recent weeks. This view reflected a desire to maintain a steady market tone during forthcoming Treasury financing operations. Also, business and financial sentiment was reported as being affected by uncertainties surrounding the discussion of tax legislation, by the size of the Federal deficit, and by the continuing balance of payments problem. Developments abroad, notably the French veto of British entrance into the Common Market and the Canadian tension over defense policy, added to the atmosphere of business uncertainty.

While there was agreement that no change in monetary policy was to be made at this time, some technical changes in the wording of the current economic policy directive were deemed appropriate in the light of recent developments. After discussion of these changes, unanimous approval was given to the following directive to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while aiming at money market conditions that would minimize capital outflows internationally. This policy takes into account the continuing adverse U.S. balance of payments position and the substantial increases in bank credit, money supply, and the reserve base in recent months, but at the same time recognizes the limited progress of the domestic economy, the continuing underutilization of resources, and the absence of general inflationary pressures.

To implement this policy, and in view of the forthcoming Treasury financing, System open market operations during the next 3 weeks shall be conducted with a view to maintaining about the same degree of firmness in the money market that has prevailed in recent weeks and to offsetting downward pressures on short-term interest rates, while accommodating moderate reserve expansion.

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

Although he voted to approve this directive, Mr. Robertson indicated he did not favor continuing the clause in the second paragraph: "and to offsetting downward pressures on short-term interest rates." He felt that retention of this clause, well beyond the period of strong seasonal rate pressures, suggested Committee preoccupation with the maintenance of a particular level of

bill rates rather than with the promotion of a general monetary atmosphere appropriate to the objectives of the Committee.

March 5, 1963

1. Authority to effect transactions in System Account.

On balance, the domestic economic picture had not changed significantly since the preceding meeting of the Committee. Special influences, such as unusually severe winter weather and strikes in some key industries, had affected some of the statistical readings but most changes, both favorable and unfavorable, were quite small.

Automobile production and sales continued high in February. Total retail sales also continued close to record levels. Personal income increased in January owing to large dividend payments on veterans' insurance, which more than offset a sizable increase in employee contributions to social security. The labor market showed little change, although the seasonally adjusted rate of unemployment edged up in January and again in February.

The industrial production index in January was down fractionally from December but stayed in the narrow range that had prevailed since July 1962. New orders received by durable goods producers, on the other hand, rose appreciably to a level slightly above the October 1962 high.

Consumer prices in January reversed the slight decline experienced in December; they were 1.4 per cent above a year earlier, with higher prices of foods and services mainly responsible. Wholesale commodity prices continued to show little change from the preceding month or from a year earlier.

Yields on corporate bonds showed little change in the weeks immediately preceding the meeting, while municipal bond yields increased moderately in response to continuing heavy dealer inventories. Yields on Treasury intermediate- and long-term issues also rose somewhat, partly reflecting Treasury refunding activities. Treasury bill rates dropped slightly below mid-February levels. A highlight of the period was the apparently successful Treasury advance refunding operation—not yet completed—involving a potential exchange of about $29 billion of outstanding issues, of which public holdings accounted for about $20 billion.

Capital market financing by corporations and State and local governments was in moderate volume again in February. Stock market prices declined appreciably during the 2 weeks preceding the meeting, after rising vigorously for more than 3 months.

Bank credit rose substantially further in February on a seasonally adjusted basis, reflecting chiefly increases in security loans and loans to finance companies and a much smaller than usual decline in holdings of U.S. Government securities. The seasonally adjusted money supply apparently was maintained close to the January level, while time and savings deposits increased substantially further. Total reserves and required reserves behind private deposits had declined about seasonally over the past 4 weeks. Free reserves averaged somewhat lower, and member bank borrowings higher.

According to tentative preliminary estimates, the balance of payments deficit was much lower in February than in January. However, in view of the influence of the dock strike on the trade figures, the average for the past 2 or 3 months seemed more significant, and this average showed no improvement over 1962. Exchange markets and the London gold market were generally quiet; sterling continued to show counterseasonal weakness.

The Committee was in agreement that monetary policy in the period until its next meeting should continue along the lines followed in recent weeks. As usual, there were shadings of opinion as to the relative importance and usefulness of small changes in monetary policy, in one direction or the other, either for dealing with the domestic economy or for coping with the continuing large deficit in the balance of payments. In terms of the period immediately ahead, however, there was general recognition that

the continuing Treasury financing operations during most of the period argued against any significant change in policy.

Although the decision was for continuation of the same degree of monetary ease as had prevailed in recent weeks, certain minor technical changes in the wording of the directive were adopted. Accordingly, the following current economic policy directive was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while aiming at money market conditions that would minimize capital outflows internationally. This policy takes into account the continuing adverse U.S. balance of payments position and the increases in bank credit, money supply, and the reserve base in recent months, but at the same time recognizes the limited progress of the domestic economy, the continuing underutilization of resources, and the absence of general inflationary pressures.

To implement this policy in a period following a major Treasury financing, System open market operations during the next 3 weeks shall be conducted with a view to maintaining about the same degree of firmness in the money market that has prevailed in recent weeks and to offsetting downward pressures on short-term interest rates, while accommodating moderate reserve expansion.

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

2. Authority to purchase and sell foreign currencies.

Authorization was given to the Federal Reserve Bank of New York to undertake, on an experimental basis, forward purchases up to a combined total of $25 million equivalent of any or all of the foreign currencies authorized for System operations in order to permit greater flexibility in covering commitments under reciprocal currency (swap) agreements.

Accordingly, the continuing directive to the Federal Reserve Bank of New York with respect to foreign currency operations was amended as follows, effective immediately:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations reaffirmed by the Federal Open Market Committee on March 5, 1963:

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

The Federal Reserve Bank of New York is also authorized and directed to purchase, in accordance with the Guidelines and for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements, any or all of the foregoing currencies through forward transactions, up to a combined total of $25 million equivalent.

Total foreign currencies held at any one time shall not exceed $1.3 billion.

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

3. Review of continuing authorizations.

This being the first meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1963, and their assumption of duties, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The action taken with respect to the continuing authority directive on foreign currency operations has been described in the preceding portion of the entry for this date.

The Committee reaffirmed its continuing authority directive to the Federal Reserve Bank of New York with respect to trans-

actions in U.S. Government securities, repurchase agreements, and bankers' acceptances, in the form in which that directive was outstanding at the beginning of the year 1963. The language of the directive is set forth in the preface to this record of Open Market Committee policy actions for 1963.

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

Mr. Robertson, who had voted against the adoption of the continuing authority directive in its present form on March 6, 1962, abstained because he continued to feel that the directive was inadequate and did not provide sufficient guidance and restrictions.

The Committee also reaffirmed its authorization regarding open market transactions in foreign currencies and its guidelines for System foreign currency operations, in the form in which both of these were outstanding at the beginning of the year 1963, as set forth in the preface to this record of policy actions.

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

The reaffirmation of the authorization for System foreign currency operations was with the understanding that the program continued to be regarded as experimental in nature.

March 26, 1963

Authority to effect transactions in System Account.

Reports indicated that business and financial sentiment with respect to short-run prospects for domestic activity had strengthened since the preceding meeting of the Committee as favorable economic data predominated. A recent survey indicated that business planned to increase fixed capital outlays in 1963 by 5 per cent, instead of the 3 per cent increase reported by a survey last autumn. Business plans for inventory holdings called for a stepping-up of expansion in the second quarter of this year, partly as protection against a possible steel strike in the summer. New orders received by machinery and other durable goods producers had risen somewhat further in February; and stock market prices had maintained the higher level to which they rebounded in early March. Also, consumer plans to spend for automobiles, other durable goods, and homes indicated continuing strength of demand.

While these portents of further expansion in activity substantially reduced whatever expectations there had been for an imminent cyclical recession, they were not sufficient to suggest a major improvement in unemployment. In fact, unemployment had increased again in February, reaching a seasonally adjusted rate of 6.1 per cent of the civilian labor force. The rise reflected the fact that the increase in the labor force was greater than the moderate rise in employment.

Industrial production remained essentially unchanged again in February. Construction expenditures declined, but new housing units started increased a little from the reduced January level. Retail sales showed little change in February around the advanced January rate but, with automobile markets continuing strong, sales rose further in early March. Industrial commodity prices continued stable.

In the financial area corporate and municipal security issues in March were relatively large and appeared likely to continue so in April. Nevertheless, yields on corporate bonds had changed little in recent weeks, while yields on State and local government securities had declined. Large-scale Federal refundings and cash borrowings also took place, with yields on U.S. Government securities remaining in a relatively narrow range. Yields on 90-day Treasury bills, at 2.90 per cent, continued below the Federal Reserve discount rate, while yields on long-term Treasury issues

edged up to an average of 3.94 per cent in the week preceding this meeting.

Seasonally adjusted bank credit expansion continued large in January, February, and early March. Business loans, however, had shown mainly seasonal changes following a rapid increase in late 1962. Real estate and consumer loan demand continued strong.

Free reserves of member banks averaged $300 million in the 3 weeks ending March 20, little changed from the average for the month of February. The seasonally adjusted money supply rose in the first half of March following a slight drop in February. Time and savings deposits, seasonally adjusted, continued to expand rapidly, but at a somewhat slackened pace in February and the first half of March.

The deficit in U.S. international payments in the first quarter of 1963 was tentatively estimated to be moderately lower than the quarterly average for the years 1962 and 1961. The first-quarter figures were unfavorably affected by the dock strike and a bunching of foreign bond issues but favorably affected by large repayments of bank loans and probably some flows of funds connected with the recent weakness of the pound sterling. Both in 1962 and 1961, however, results of the first quarter had turned out to be considerably better than those for subsequent quarters. (In 1963 the contribution of one favorable but seasonal influence —the reversal of year-end window-dressing operations by foreign banks—was much reduced.) Exchange markets showed, on balance, little net change, except for the pressure on sterling.

The Committee indicated general satisfaction with the degree of monetary and credit ease that had prevailed in recent weeks, and none of the members suggested a major change in policy in either direction. However, in view of the cumulative consequences of large balance of payments deficits, a minority felt it desirable to start moving toward slightly less reserve availability and slightly higher Treasury bill rates. Some other members indicated that they might have been attracted to this policy position except for the Treasury financing program under way and ahead. Still others, however, expressed serious doubt that a less easy monetary policy, within the ranges discussed, would have any appreciable effect on the balance of payments position, and they felt that a more pronounced shift would have unfavorable consequences for the domestic economy.

The majority position was clearly for maintaining essentially the status quo during the ensuing 3-week period. Nevertheless, in order to keep the current economic policy directive as accurately descriptive of current conditions and policy as possible, minor technical wording changes were adopted. Accordingly, the following directive was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while aiming at money market conditions that would minimize capital outflows internationally. This policy takes into account the continuing adverse U.S. balance of payments position and the increases in bank credit, money supply, and the reserve base in recent months, but at the same time recognizes the limited progress of the domestic economy, the continuing underutilization of resources, and the absence of general inflationary pressures.

To implement this policy in a period of a Treasury bond financing, System open market operations during the next 3 weeks shall be conducted with a view to maintaining about the same degree of firmness in the money market that has prevailed in recent weeks, while accommodating moderate reserve expansion.

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

Mr. Hayes recognized that the scope for policy change during the forthcoming 3-week period was distinctly limited by the Treasury financing program. However, because of the gravity of the threat to the position of the dollar due to cumulative effects of balance of payment deficits, he would have favored moving

toward a slightly lesser degree of monetary ease since he was convinced that somewhat higher interest rates and reduced credit availability could bring important benefits, both actual and psychological.

April 16, 1963

Authority to effect transactions in System Account.

The economic situation had improved noticeably in March, with widespread gains registered by various measures of activity and with business sentiment distinctly better. Industrial production rose 1 percentage point to a level fractionally above the September 1962 high. Production of steel increased substantially, along with orders, partly reflecting inventory accumulation in anticipation of a possible strike in the summer. Nonagricultural employment rose further, with increases reported for most major types of industry and activity. The unemployment rate declined appreciably in March to 5.6 per cent of the civilian labor force, but it appeared that both this decline and the rise in the preceding month probably reflected, in part, difficulties in measuring seasonal changes.

Retail sales rose further in March, with automobile markets continuing exceptionally strong. GNP was tentatively estimated to have risen in the first quarter to an annual rate of $572 billion, a higher level than had been expected earlier.

Industrial material and other wholesale price averages remained little changed in March and early April. Very recently, however, certain producers of steel had announced price increases for a portion of their products, and it was regarded as quite possible that others would follow suit. Stock market prices advanced further in recent weeks to within about 5 per cent of the December 1961 peak, the record level of corporate profits reported for the fourth quarter of 1962 having been a contributing factor.

Against the background of indications of greater business strength and selective commodity price increases, a relatively large volume of corporate and municipal bond financing, together with an auction of $300 million of U.S. Government long-term bonds, had resulted in some tendency toward capital market congestion and higher yields. A sizable portion of the auctioned Treasury bonds were still undistributed. Yields on 3-month Treasury bills, however, remained at or close to 2.90 per cent.

Bank credit expansion (seasonally adjusted) in March was large, as bank holdings of U.S. Government securities declined less than seasonally. While business loans were up only slightly further, expansion was appreciable for most other types of loans.

The seasonally adjusted money supply rose by $300 million in March, and in the latter part of the month it was about 2.25 per cent higher than a year earlier; however, it had risen at an annual rate of only 1 per cent compared with late December 1962. Time and savings deposits continued to increase rapidly at about the rate of other recent months.

The U.S. balance of payments deficit continued large in the first quarter of 1963. Comparative analysis was difficult, however, mainly because of the conflicting influences of the dock strike in January and the weakness of sterling in March. The net decline in the U.S. gold stock was unusually small in relation to the payments deficit, which, according to fragmentary data, appeared to have worsened again in the first 10 days of April. Gold and foreign exchange markets had been moderately active at times in the past few weeks, with the dollar generally weaker than earlier this year.

Although the domestic economic situation had shown signs of improvement throughout the country in recent weeks, it appeared to the Committee premature to assume that a vigorous sustained expansion was yet under way. This situation, together with factors such as continuing high rates of unemployment and a lack of evidence of general inflationary pressures, led the majority to favor no change of policy in the direction of lesser monetary ease at this stage. In addition, some members who otherwise might have preferred to move toward a slightly lesser degree of

ease felt that such action would be undesirable at this time because of the aftermath of the Treasury bond auction and impending large refunding operations. Two members, however, favored a shift in monetary policy at this time, one recommending a slightly lesser degree of ease, the other a slightly greater degree of ease.

In line with the majority decision to continue unchanged the policy adopted at the meeting on March 26, the directive issued to the Federal Reserve Bank of New York at that meeting was renewed without change.

> Votes for this action: Messrs. Martin, Balderston, Bopp, Clay, Irons, King, Mitchell, Robertson, Scanlon, and Shepardson. Votes against this action: Messrs. Mills and Treiber.

In dissenting from this action, Mr. Mills expressed the view that financial developments were resulting in undesirable downward pressure on the money supply. The substantial expansion of commercial bank credit in 1962 and early 1963 had been accommodated largely by a sharp expansion in time and savings deposits rather than by expansion of the money supply, he said, and there had not been the stimulative effect on economic activity that would have been obtained from expansion in the money supply itself. Considering the normal lag between policy action and the resulting effects, he felt that it was not too early to alter the tone and direction of monetary policy toward slightly greater ease.

Mr. Treiber felt that within the narrow limits of providing an even-keel base for Treasury financing there was some room for seeking a slightly firmer money market. In his judgment, the ample liquidity in the economy and the recent improvement in domestic activity permitted additional attention to be given to this country's continuing and serious balance of payments problem.

May 7, 1963

Authority to effect transactions in System Account.

The widespread improvement noted in the domestic economy in March continued in April. Employment rose further, and preliminary indications were that there had been a substantial advance in industrial production. The rise in industrial production reflected increased steel output, both for building inventories as a hedge against a possible strike and higher prices and for meeting the increased needs arising from higher current levels of durable goods output. Automobile production and sales, for example, had continued at exceptionally high levels. Some recent information, however, was less favorable. The unemployment rate rose slightly in April from the improved March level. Retail sales, seasonally adjusted, were indicated to have declined in April, and increases previously reported for March and February had been revised downward.

One indication of underlying strength came from a recent survey of business plans for new plant and equipment outlays for 1963 and later years. This survey reported a higher level of prospective business outlays for this year than reported by an earlier survey made last autumn, and confirmed the increase in prospective spending reported several weeks earlier by another survey.

Commodity price averages continued little changed; some items—such as selected steel and aluminum products and sugar—rose, but most others remained stable. The consumer price index advanced 1/10 of 1 per cent further in March.

Largely in reflection of the gains in business activity, the markets for Government, corporate, and municipal bonds were under some pressure in April. Another complicating factor in the market was the slow redistribution of auctioned U.S. Government bonds that had been acquired by an underwriting syndicate. More recently, however, the market tone had improved somewhat. Since mid-April, average yields on outstanding U.S. Government long-term bonds had remained just under 4 per cent; intermediate-term security yields had declined somewhat, while 3-month bill yields had fluctuated narrowly around the 2.90 per cent level.

Seasonally adjusted commercial bank credit declined in April following a sharp rise in March, when tax borrowing and Treasury financing operations contributed to bank credit expansion. The seasonally adjusted money supply rose by $500 million further in April to a level 2.25 per cent above a year earlier; time and savings deposits also rose further but much less rapidly than in other recent months. Free reserves averaged higher in April, while member bank borrowings from Federal Reserve Banks averaged lower.

The balance of payments deficit, according to preliminary data, increased sharply in April and was above the monthly average for the first quarter of the year. The rise in the deficit may have reflected a reaction in the U.S. trade surplus from the bulge in February and March following settlement of the dock strike, cessation of capital inflows attributable to the March pressure on sterling, and increased outflows to Canada as market confidence in the new Canadian Government strengthened. The London gold market continued quiet. In foreign exchange markets, sterling weakened while most continental European currencies, as well as the Canadian dollar, strengthened.

The Committee noted that although the business atmosphere and outlook had improved significantly in recent weeks, unemployment had continued excessively high and the balance of payments deficit disturbingly large. Committee members placed varying interpretations on the relative importance of such factors for current open market policy, but there was rather general agreement that any change in policy that might be made at this time should be of a relatively modest nature. It developed from the discussion that while several members felt that it would be unwise to risk dampening the budding expansion in domestic activity at this juncture by even a slight reduction in the degree of monetary ease, a somewhat larger number concluded that the domestic economy had already strengthened sufficiently to permit a move to slightly less ease in order to place greater emphasis on this country's balance of payments problem.

The majority decision, therefore, was to move toward a position of slightly less ease beginning about the middle of May, when current Treasury financing operations would be out of the way; and the Committee's directive was modified to reflect this change in policy and to be more descriptive of the current situation. Accordingly, the following directive was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while putting increased emphasis on money market conditions that would contribute to an improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the continuing adverse balance of payments position and its cumulative effects and the improved domestic business outlook, as well as the increases in bank credit, money supply, and the reserve base in recent months. At the same time, however, it recognizes the continuing underutilization of resources.

To implement this policy, System open market operations following the conclusion of the Treasury refunding operation shall be conducted with a view to achieving a slightly greater degree of firmness in the money market than has prevailed in recent weeks, while accommodating moderate reserve expansion.

Votes for this action: Messrs. Martin, Hayes, Balderston, Irons, King, and Shepardson. Votes against this action: Messrs. Bopp, Clay, Mitchell, Robertson, and Scanlon.

May 28, 1963

1. Authority to effect transactions in System Account.

Domestic economic activity in April had generally advanced further, with advances widespread among principal industrial sectors. While information for May was quite incomplete, available data indicated that expansion in activity had continued. Although higher prices were posted for certain products, prices remained little changed on the average.

Industrial production in April rose by almost 2 percentage points to a new high, with about one-third of the total rise accounted for by higher steel production. The April index, at 122, was 4 per cent above a year earlier. Housing starts also advanced in April. Nonfarm employment continued to rise, with manufacturing accounting for much of the increase. Rapid growth in the labor force, however, left the unemployment rate about unchanged despite the gain in employment.

Retail sales in April and early May appeared to have changed little. Sales by automobile dealers maintained a high level, and recent surveys of consumer buying intentions for autos, other durable goods, and houses suggested that spending plans were continuing to show strength. New orders, sales, and unfilled orders received by producers of durable goods rose appreciably in April. Although much of the rise reflected heavy buying of steel, new orders rose moderately in nearly all industries, including machinery.

New security financing by corporations and State and local governments in the preceding weeks had been moderate, and the calendar through June indicated that offerings would be fairly light in the corporate area, although more substantial for State and local issues. Retail distributions of new issues were reported as slow, however, and dealers' inventories quite large. Bond yields declined somewhat through mid-May but moved up thereafter, while downward pressure on mortgage rates continued. Common stock prices held at a level a little below the late 1961 peak, and the volume of stock market credit reached a new high.

Treasury bill rates were steady in early May but moved higher after midmonth, partly in response to a somewhat lower margin of free reserves available to member banks; the 3-month rate advanced from about 2.90 per cent to 2.97 per cent. Treasury bond yields fluctuated in a narrow range after early May, with substantial purchases of coupon issues by the Treasury for its investment accounts a steadying factor.

The seasonally adjusted money supply rose moderately further in the first half of May to a level 2.4 per cent above a year earlier. In the April-early May period time deposits at commercial banks increased considerably less rapidly than earlier in 1963.

Reflecting, in part, action of the System Account pursuant to the directive issued at the preceding Committee meeting, free reserves moved lower after mid-May. Borrowings from the Federal Reserve Banks rose to an average of $281 million in the week ending May 22, up from an average of $134 million during the preceding 3 weeks.

The balance of payments deficit for April, while somewhat smaller than had been indicated by the earlier preliminary figures, was substantial. Moreover, tentative and fragmentary figures for the first 3 weeks of May indicated continued sizable net transfers to foreigners, and foreign borrowing in U.S. markets continued on a large scale. In these circumstances the dollar remained weak against the major continental European currencies. Trading on the London gold market was quite active, although the price changed little.

Discussion at this meeting centered on reviewing economic and market developments in the light of the slight shift in monetary policy toward less ease that had been adopted at the May 7 meeting of the Committee. This review found quite general agreement that a moderate further strengthening of domestic economic activity had occurred. Business sentiment, although perhaps a bit more cautious than earlier, apparently remained optimistic. The performance of the economy, however, was still below capabilities, with unemployment persisting at unsatisfactory levels and with other indications of continuing inadequate resource utilization. The balance of payments problem continued to be serious, and the position of the dollar in foreign exchange markets had weakened.

Most members of the Committee felt that the lessened credit

ease accomplished since the preceding meeting was constructive and that the existing market tone and degree of reserve availability should be continued for the next 3 weeks. Some members, in fact, would have been inclined, if anything, to favor action to lessen credit ease further. Others, however, continued to question the desirability of the restraint already imposed, although only one member urged a return at this time to the degree of ease prevailing at the time of the previous meeting.

The case for maintaining the current position, or for moving toward a lesser degree of ease, reflected particularly the gravity of the U.S. international financial position and some indication of a deterioration of lending and investing standards at home. The case for a greater degree of ease reflected a desire to provide further stimulus to the domestic economy, along with doubt as to the effectiveness of modest changes in monetary policy for dealing with the balance of payments problem. One member held that a policy of less ease was neither a necessary nor desirable means of improving the quality of credit under present conditions of low resource utilization. It was clear from the entire discussion, however, that a large majority felt that policy should not be changed again at this time, one way or the other.

The consensus therefore was to maintain, but not intensify, the slightly lesser degree of ease established pursuant to the May 7 policy action. It was felt that the effects of that change were not yet fully apparent and that additional time for market adjustments was desirable, especially in the light of the uncertainties stemming from legislative consideration of the debt ceiling. Accordingly, the following directive was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while putting increased emphasis on money market conditions that would contribute to an improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the continuing adverse balance of payments position and its cumulative effects and the improved domestic business outlook, as well as the increases in bank credit, money supply, and the reserve base in recent months. At the same time, however, it recognizes the continuing underutilization of resources.

To implement this policy, System open market operations shall be conducted with a view to continuing the degree of firmness in the money market that has prevailed recently, while accommodating moderate reserve expansion.

> Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, King, Mills, Scanlon, and Shepardson. Vote against this action: Mr. Mitchell.

2. Authority to purchase and sell foreign currencies.

The guidelines for System foreign currency operations, as reaffirmed on March 5, 1963, were amended as follows:

In Section 2, the following new paragraph was inserted after paragraph 3:

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

In Section 4, the following two new paragraphs were added:

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

The effect of the amendment to Section 2 was to recognize, within the context of a specific application, the principle embodied in the guidelines that the use of foreign currency credit facilities available under reciprocal currency arrangements should be geared to market swings that were expected to prove reversible in the relatively near future. Indebtedness incurred by the System through drawings under reciprocal arrangements was clearly intended to be of a short-term nature, and in no sense to provide

longer-term financing for persistent U.S. balance of payments deficits. However, the guidelines had not heretofore specified precisely the time period implied in the reversible principle underlying such drawings. The amendments to Section 4 were designed to provide flexibility in settling System commitments.

The continuing authority directive to the Federal Reserve Bank of New York on foreign currency operations, which had previously been amended on March 5, 1963, to authorize the purchase of foreign currencies through forward transactions within specified limitations, was further amended at this meeting to authorize the purchase and sale of foreign currencies through forward as well as spot transactions for the purpose of settling commitments denominated in one currency by means of utilizing System holdings of another currency. The directive was also amended to increase from $1.3 billion to $1.75 billion the limit on total holdings of foreign currencies at any one time. At this date reciprocal currency agreements outstanding between the Federal Reserve System and foreign banks aggregated $1.1 billion, and it was anticipated that the reciprocal currency arrangement with the Bank of England would shortly be raised from $50 million to $500 million to enlarge the facilities for dealing with temporary reversible flows of funds between the two countries and further reinforce international liquidity by augmenting the availability of foreign exchange in case of need.

Accordingly, the continuing directive was issued in the following form:

> The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations reaffirmed by the Federal Open Market Committee on March 5, 1963, as amended May 28, 1963:
>
> Pounds sterling
> French francs
> German marks
> Italian lire
> Netherlands guilders
> Swiss francs

Belgian francs
Canadian dollars
Austrian schillings
Swedish kronor

The Federal Reserve Bank of New York is also authorized and directed to purchase, in accordance with the Guidelines and for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements, any or all of the foregoing currencies through forward transactions, up to a combined total of $25 million equivalent.

The Federal Reserve Bank of New York is further authorized and directed to purchase and sell, in accordance with the Guidelines and for the purpose of utilizing its holdings of one currency for the settlement of commitments denominated in other currencies, any or all of the foregoing currencies through forward as well as spot transactions, up to a combined total of $50 million equivalent.

Total foreign currencies held at any one time shall not exceed $1.75 billion.

Votes for these actions: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, King, Mills, Mitchell, Scanlon, and Shepardson. Votes against these actions: None.

June 18, 1963

1. Authority to effect transactions in System Account.

Expansion in domestic activity was reported to have continued in May and early June. The industrial production index advanced again in May, with gains widespread among industries and products. Employment also increased and hours of work at factories lengthened, but the unemployment rate rose as teenagers entered the labor market. Retail sales were unchanged from the level of the preceding 3 months, and commodity prices continued to show only small mixed changes. Stock market prices showed little change on balance.

Business confidence remained strong; a recent survey found the planned rise in outlays for new plant and equipment in 1963 to be practically the same as reported earlier, but with relatively more of the increase anticipated in the second half of the year.

Expectations of higher sales and inventories than had been indicated earlier were also reported. Stockpiling against a possible steel strike appeared about at an end, however, and the steel industry was expected soon to become a contractive influence on the economy, at least temporarily, as production was brought into closer balance with consumption.

In the financial area, market adjustments to the mid-May shift in System policy toward slightly less monetary ease continued moderate. Yields on Treasury securities had risen somewhat, but a Treasury offering of a 4 per cent intermediate-term bond met with an exceptionally strong market reception. Corporate yields on new issues changed little, while yields on municipal securities increased.

In May, seasonally adjusted bank credit rose substantially, offsetting a comparable decline in April. Real estate and consumer loans continued to expand rapidly; the rise in business loans was less sharp. The seasonally adjusted money supply was unchanged in May, in part because of an unusually large increase in Treasury deposits. Time and savings deposits rose more rapidly than in April, but more slowly than earlier in the year. Free reserves of member banks averaged somewhat lower after mid-May than earlier.

The U.S. balance of payments deficit in April and May continued at about the advanced level of the first quarter, with capital outflows remaining a major factor. Gold and foreign exchange markets were generally quiet, although the dollar was relatively weak against most major foreign currencies.

At this meeting of the Committee, attention was focused on the failure of the balance of payments deficit to show improvement; on the role of capital outflows in the continuing large deficits; and on the contribution that monetary policy might make, either alone or in conjunction with other Governmental actions, toward a solution of the problem. The majority view was that market adjustments to the mid-May shift in policy were still in process and that no further change in open market policy was appropriate at this time. One minority position was that monetary policy should move a little further toward firmness; this position was based on the view that while the domestic economy continued to strengthen, the balance of payments drain remained serious and could be alleviated somewhat through a higher structure of domestic interest rates, particularly short-term rates. Another minority view, which favored returning to the degree of monetary ease existing before the May decision, was based largely on the feeling that an easier credit posture would encourage the domestic economy to expand more rapidly and that this in turn would help the balance of payments situation.

Although no expectations of a boom in domestic conditions were expressed, neither were there reports from Federal Reserve districts of any significant weakening of business and financial expectations for maintenance of activity at current advanced levels. A majority agreed that, with unemployment persisting at high rates, domestic conditions did not require a further lessening of monetary ease at this time. Further monetary action—possibly dramatic action—might be required soon, however, if the international financial situation did not show signs of betterment.

By majority vote, the current economic policy directive to the New York Reserve Bank was reissued in the same form as approved at the preceding meeting of the Committee.

> Votes for this action: Messrs. Martin, Bopp, Clay, Irons, Mills, Scanlon, and Shepardson. Votes against this action: Messrs. Hayes, Balderston, and Mitchell.

Messrs. Hayes and Balderston dissented because they felt that the Committee should move further in the direction of slightly less ease, while Mr. Mitchell dissented because he favored a return to the greater degree of ease that had existed prior to the policy shift of mid-May.

2. Amendment of continuing authority directive.

In accordance with the recommendation of the Account Manager, Section 1(a) of the continuing authority directive to

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

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

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

July 9, 1963

Authority to effect transactions in System Account.

Economic activity had continued to expand moderately through June, but business sentiment appeared to have become a little less buoyant than earlier, probably reflecting some uncertainty over the timing and magnitude of inventory curtailments following the steel labor settlement. A threatened rail strike also may have been a factor.

GNP was indicated to have increased substantially again in the second quarter. Retail sales in June, however, showed little change at the level prevailing since February. The industrial production index apparently was at least as high in June as in May, as reductions in steel output were offset by gains elsewhere. The construction and housing situation appeared strong.

The labor market strengthened a little. The unemployment rate declined slightly to 5.7 per cent in June from 5.9 per cent in May; young people had entered the labor market in smaller numbers than expected. New and unfilled orders in the machinery industry rose in May, but a survey of capital appropriations by large manufacturers indicated a decline in the first quarter, following 2 quarters of sharp increases. Business inventory accumulation in the second quarter apparently increased less than expected, and Federal Government expenditures were below projected levels.

In the financial area, bank credit expansion in June was exceptionally large, with bank holdings of U.S. Government securities up substantially, including a sizable proportion of the recent $1.9 billion issue of Treasury 7-year bonds. Holdings of other securities also increased further, and loan growth was substantial. The seasonally adjusted money supply rose moderately further in June, and time and savings deposits expanded again, but not so rapidly as in most other months this year. Bank reserve positions were somewhat less easy as member banks obtained more of their reserves by borrowing from Federal Reserve Banks.

The money market had firmed since the preceding meeting of the Committee, with the 3-month bill rate moving up sharply in early July to about 3.20 per cent from around a 3 per cent rate earlier, reflecting widespread market expectations of a change in the Federal Reserve Bank discount rate. Yields on other maturities of U.S. Government securities also moved upward. Yields on corporate bonds continued to show little change, however, while yields on municipals, which had risen sharply from mid-May to mid-June, tended to stabilize.

The balance of payments deficit for the second quarter was estimated to be somewhat above even the high first-quarter rate. The trade surplus in April and May was much larger than in the first quarter, and the volume of foreign securities issued in the U.S. capital market declined from the unusually high first-quarter level. But the effect of these favorable developments on the

payments balance was more than offset by a rise in U.S. bank lending to foreigners and other short-term capital outflows, including unreported transactions. Foreign exchange markets had been moderately active in recent weeks, with some seasonal easing of exchange market pressure on the dollar.

There was extensive discussion at this meeting of the Committee about the proper course of monetary policy in the light of the serious and persistent balance of payments deficit and the urgent need for additional measures to deal with it. At the same time it was recognized that the domestic economy was not expanding at a rate sufficient to bring about full employment soon and that a more rapid rate of growth was highly to be desired.

In considering these problems, special attention was given to reports of additional Governmental measures under consideration to improve the international financial position, and to the role monetary policy might play within the context of a broad corrective effort. It was generally accepted that the large outflow of short-term funds was amenable in some degree to curtailment by a monetary policy directed toward higher short-term interest rates. Judgments differed, however, as to whether short-term rates sufficiently higher to be effective could be brought about without materially affecting the over-all availability of domestic credit or without causing long-term rates to increase somewhat as well. Similarly, there were differences of view as to the likely consequences of higher short-term rates for the domestic economy, which some members felt was not so robust as might appear.

The majority view was that the use of monetary tools was justified in an effort to help improve the balance of payments position. On the question of timing, however, there was some feeling that any further action could properly await additional testing of the strength of the economy and evidence of market reactions to the broader Governmental programs contemplated and yet to be announced. Another view called for prompt action to take advantage of recent widespread market expectations regarding a change in monetary policy, in the belief that this would make for more orderly markets and that everything possible should be done to guard against any possible balance of payments crisis before it became imminent.

Some of the discussion related to the open market policy that might appropriately be followed if early action were taken by the Federal Reserve System to increase the discount rate; several Reserve Bank members of the Committee reported that they intended to recommend to the directors of their respective Banks within the near future that a higher discount rate be established. There was considerable feeling, in such circumstances, that it would be inappropriate for open market operations to permit a sharp decline from existing market rates, which reflected expectations of a discount rate increase, only to have market rates rise again if the discount rate should be increased.

After weighing all of the foregoing considerations, a majority favored conducting open market operations in the next 3 weeks with a view to maintaining the degree of firmness in the money market existing at the time of this meeting. A minority believed that a return to an easier and more stimulative monetary position would be appropriate.

In accordance with the majority view, the following current economic policy directive was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while putting increased emphasis on money market conditions that would contribute to an improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the continuing adverse balance of payments position and its cumulative effects and the high level of domestic business activity, as well as the increases in bank credit, money supply, and the reserve base in recent months. At the same time, however, it recognizes the continuing underutilization of resources.

To implement this policy, System open market operations shall be conducted with a view to continuing the present degree of firmness in the money market.

Votes for this action: Messrs. Martin, Hayes, Balderston, Bopp, Clay, Irons, King, Mills, Scanlon, and Shepardson. Votes against this action: Messrs. Mitchell and Robertson.

Messrs. Mitchell's and Robertson's dissenting votes reflected their view that the Committee should take prompt steps to moderate the money market firming that had occurred in the period since the preceding meeting, and move gradually toward a still easier monetary policy that, along with the tax reduction under consideration by Congress, would be more conducive to an acceleration of domestic economic growth. They recognized fully the gravity of the U.S. balance of payments problem but thought that it should be dealt with by vigorous application of specific remedies, including further efforts to bring about a reduction of existing discriminatory barriers to U.S. exports. They viewed firming money market conditions at this time as continuing the Committee's recent trend toward reducing the incentive for domestic borrowing, and they were concerned that it might induce a backwash of reaction that would worsen rather than help the balance of payments problem over the months immediately ahead.

July 30, 1963

1. Authority to effect transactions in System Account.

The domestic economy had continued to expand at a moderate pace. In the second quarter, GNP was estimated on a preliminary basis at a $579 billion seasonally adjusted annual rate, as compared with $572 billion in the first quarter. Industrial production in June rose further to an index level of 125, despite a decline in steel output.

Housing starts, although off somewhat in June from the advanced May level, were substantially above a year earlier. Nonagricultural employment rose further, average hours of work at factories remained high, and the unemployment rate declined slightly. Retail sales in June were at the level prevailing since winter, but in July a modest rise appeared likely. Consumer prices increased in June, with higher food prices the major factor, and industrial prices in wholesale markets firmed.

Despite the generally favorable tone of the statistics, more crosscurrents and uncertainties in the economy were apparent than earlier, with some questioning of the continuation of the current rate of expansion. The persistent balance of payments deficit contributed to the uncertainties, and programs designed to deal with it had been announced by the President in mid-July.

The recent action increasing the Federal Reserve discount rate to 3½ per cent had been widely anticipated, particularly following reports of a further deterioration in the balance of payments in the second quarter. Yields on U.S. Government securities rose during the first half of July, with Treasury bills showing the greatest response. The 3-month bill rate rose about ¼ of 1 percentage point to 3¼ per cent, and intermediate- and long-term bond yields increased somewhat. After the discount rate announcement yields receded slightly, but on the shortest maturities yields subsequently moved back to about the 3¼ per cent level. Federal funds rates, after oscillating sharply during the period when differing Reserve Bank discount rates were in existence, moved up into a 3¼ to 3½ per cent range. Corporate and municipal bond yields were not affected significantly.

Credit at weekly reporting member banks declined much more than usual in the first 3 weeks of July following an exceptionally large increase in June, both months being affected by the earlier timing of Treasury financing operations this year. Required reserves against private deposits rose more than seasonally in the 4 weeks ended July 24. Free reserves averaged somewhat less than in the preceding 4 weeks, while both excess reserves and borrowings were larger.

The seasonally adjusted money supply increased sharply in the first half of July, following a somewhat smaller rise in June. Time and savings deposits at commercial banks increased in the first half of July at about the second-quarter rate; the mid-

month increase to 4 per cent in the maximum permissible rate of interest payable on time deposits with maturities between 90 days and 1 year was followed by a sharp rise in time deposits at weekly reporting member banks.

The U.S. balance of payments deficit proved to have increased sharply in June and for the second quarter. Excluding net receipts from special Government transactions, the seasonally adjusted deficit for the quarter was expected to come to about $1.25 billion, considerably larger than the deficit for the first quarter. The increase was traceable to an enlarged capital outflow, especially of short- and medium-term bank credit.

In the week and a half after the increase in the discount rate and the announcement of a proposed interest equalization tax on American purchases of foreign securities, the U.S. dollar strengthened against the Canadian dollar and very slightly against sterling, but showed little or no general improvement against other currencies.

The discussion at this meeting showed that the range of views as to the appropriate policy to be followed for the next 3 weeks was relatively narrow. To a considerable extent, the differences of opinion reflected varying judgments as to whether open market operations should focus more on the levels of short-term rates or on target levels for the availability of bank reserves. Judgments also differed on whether short-term rates should preferably remain about where they were for the period immediately ahead, or whether they should be encouraged to move up slightly further, in the context of a higher discount rate, to clarify to the market the present posture of System policy. It developed that a majority of the Committee favored attaining a slightly greater degree of firmness in the money market, while continuing to provide for moderate expansion in bank reserves, and the following current policy directive therefore was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while putting increased emphasis on money market conditions that would contribute to an improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the continuing adverse balance of payments position and its cumulative effects and the high level of domestic business activity, as well as the increases in bank credit, money supply, and the reserve base in recent months. At the same time, however, it recognizes the continuing underutilization of resources.

To implement this policy in the context of a higher discount rate, System open market operations shall be conducted with a view to attaining a slightly greater degree of firmness in the money market, while accommodating moderate expansion in aggregate bank reserves.

Votes for this action: Messrs. Martin, Hayes, Balderston, Irons, Mills, and Shepardson. Votes against this action: Messrs. Bopp, Mitchell, Robertson, and Scanlon.

2. Amendment of continuing authority directive.

The Account Manager suggested that under present conditions the continuing authority directive to the Federal Reserve Bank of New York, which had been amended on June 18, 1963, to raise from $1 billion to $1.5 billion the limit on net changes in the System Open Market Account in the period between Committee meetings, might appropriately be changed to restore the former figure of $1 billion. Accordingly, the Committee amended Section 1(a) of that directive by inserting "$1 billion" and deleting "$1.5 billion."

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

August 20, 1963

Authority to effect transactions in System Account.

According to preliminary figures on industrial production, retail trade, employment, new orders, and private construction, the domestic economy demonstrated somewhat more vigor in July than had been generally anticipated. The industrial production index rose nearly 1 percentage point, to 126.5 per cent of the 1957-59 average, from a June figure that had been revised upward, and the gains were widespread among industries and market groupings.

The labor market also showed some improvement as nonagricultural employment rose further, factory hours of work were maintained at high levels, and the rate of unemployment declined slightly. The number of major labor market areas classified in substantial labor surplus categories had been reduced to the smallest total since mid-1960. Retail trade, which had been on a plateau for some time, showed evidence of advancing in both June and July, with sales in July more than 2 per cent above the May level. According to a recent survey, consumer buying plans also had strengthened. Industrial prices remained relatively stable on average, while stock market prices had risen to the year's high and were close to the record high of December 1961.

The impact of the mid-July increase in the Reserve Bank discount rate, other monetary actions, and the President's program to deal with the deficit in the balance of payments had now been reflected more substantially in the financial sector. Treasury short-term bill rates had risen somewhat further and were about one-third of a percentage point above the 3 per cent level prevailing at the beginning of July. Other money market rates had also risen, and Federal funds recently had been trading quite consistently at 3½ per cent. In longer-term markets yields on Treasury bonds remained practically unchanged at about 4 per cent for most issues, while yields on new issues of corporate and municipal bonds had declined several basis points. Although the volume of corporate and municipal financing continued to be light, dealers had nevertheless encountered some sluggishness in investor demand.

Bank credit, seasonally adjusted, declined substantially in July following a large rise in June, but the average expansion for the 2 months was about the same as that for earlier months this year. The seasonally adjusted money supply rose $900 million in July but increased only slightly further in the first half of August, according to preliminary estimates. Time and savings deposits increased considerably further in July and early August, with the rate of expansion in time deposits accelerating after mid-July when the ceiling on time deposits with maturities of 90 days to 1 year was raised to 4 per cent. Free reserves averaged a little lower in the 4 weeks to mid-August than in the preceding 4-week period.

International transactions in July apparently resulted in a small surplus in the U.S. balance of payments. However, this reflected advance debt repayments by two European countries and reversal of midyear window-dressing operations of some European banks; without these transactions, there would have been a deficit of about $200 million to $250 million. Taking the months of June and July together, and excluding special Government receipts, the deficit was at an annual rate of about $3.5 billion. Fragmentary data for early August indicated no significant change. In the exchange markets the U.S. dollar improved slightly vis-a-vis the Canadian dollar, weakened against the Swiss franc, and was little changed against other major currencies.

The discussion of open market policy for the period immediately ahead related essentially to whether the Committee's directive should continue to call for System Account operations with a view to attaining a slightly greater degree of firmness in the money market or whether operations should be conducted with a view to maintaining the prevailing degree of firmness. Upon consideration of recent economic and financial developments, including the increase in short-term rates during the past several weeks, and in view of prospective large-scale Treasury financing operations, it was the conclusion of the Committee that it would be preferable for the present degree of market firmness to continue unchanged for the time being, pending further evaluation of System policy in the light of de-

velopments affecting the domestic economic situation and the balance of payments. The following current economic policy directive was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while putting increased emphasis on money market conditions that would contribute to an improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the continuing adverse balance of payments position and its cumulative effects and the high level of domestic business activity, as well as the increases in bank credit, money supply, and the reserve base in recent months. At the same time, however, it recognizes the continuing underutilization of resources.

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

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

September 10, 1963

1. Authority to effect transactions in System Account.

Preliminary figures for August suggested no major change in the domestic business situation, with prospects favoring a continuation of an upward movement at a moderate pace. The unemployment rate edged down, although at 5.5 per cent it was not significantly different from a year earlier. It appeared probable from incomplete information that industrial production in August had changed little from the July level, with sharp declines in auto output—associated with the model change-over—and in steel production approximately offset by rises in other lines. Weekly data suggested that retail sales may have risen slightly further. Scattered reports of price increases for some industrial commodities were about balanced by reports of declines for others, and the over-all average of commodity prices remained stable.

With respect to prospective developments, the latest survey of business plans indicated that plant and equipment expenditures would rise substantially over the balance of the year. Stock price averages touched new highs, perhaps influenced by both brighter business prospects and the expectation of a tax cut. The end of the immediate threat of a rail strike at least temporarily removed a potentially serious impediment to business activity.

Credit conditions at commercial banks also showed relatively little change. Banks continued to acquire large amounts of municipal and Government agency securities and to expand their mortgage and consumer loans relatively rapidly. Business loans, however, remained sluggish. The money supply, seasonally adjusted, declined slightly in August, but seemingly began to rise again in early September. Through August. growth in the money supply in 1963 had been at an annual rate of 2.5 per cent, compared with a 1.5 per cent increase in 1962 as a whole.

Conditions in the money and capital markets at the time of this meeting were influenced by a Treasury advance refunding operation that had been announced earlier in September. Prior to the announcement, the rate on 3-month Treasury bills had been fluctuating between 3.38 and 3.40 per cent, and yields on long-term Government, corporate, and municipal securities were all between ⅛ and ¼ of a percentage point above their lows earlier in the year. The refunding operation put some downward pressure on bill rates in the last few days before this meeting and was accompanied by some upward adjustments in yields on longer-term Government and corporate bonds.

According to the tentative weekly figures, the August deficit in the U.S. balance of payments, like the July deficit, was below the rate for the first 2 quarters, after allowance for seasonal variations. The evidence available suggested that the improvement thus far in the third quarter might have been confined to the capital account.

The Committee was unanimous in the view that no change should be made in its credit policy while the Treasury refunding operation was in process. Some members expressed an inclination to seek a slightly greater degree of firmness in money market conditions after the refunding, or at least to resolve any uncertainties on the side of less ease, on the ground that improving domestic business conditions offered an opportunity for monetary policy to make some further contribution to improvement in the balance of payments situation. In the opinion of others, however, present policy was appropriate even apart from the desirability of maintaining stable monetary conditions during the refunding. Some members also favored a continuation of present policy on the grounds that it was preferable to make any desired changes at Committee meetings rather than to project them into a period between meetings. After discussion, a consensus was reached favoring no change for the full 3-week period ahead. The Committee then issued the following current economic policy directive to the Federal Reserve Bank of New York:

> It is the Committee's current policy to accommodate moderate growth in bank credit, while putting increased emphasis on money market conditions that would contribute to an improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the continuing adverse balance of payments position and its cumulative effects and the high level of domestic business activity, as well as the increases in bank credit, money supply, and the reserve base in recent months. At the same time, however, it recognizes the continuing underutilization of resources.
>
> To implement this policy, and taking account of the current Treasury refunding operation, System open market operations shall be conducted with a view to maintaining the prevailing degree of firmness in the money market, while accommodating moderate expansion in aggregate bank reserves.

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

2. Authority to purchase and sell foreign currencies.

Upon recommendation of the Special Manager of the System Open Market Account, the Committee amended the continuing authority directive for System foreign currency operations to increase from $25 million to $50 million the authorization for purchases of foreign currencies through forward transactions for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements. With this amendment the directive issued to the Federal Reserve Bank of New York 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 reaffirmed by the Federal Open Market Committee on March 5, 1963, as amended on May 28, 1963:

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

The Federal Reserve Bank of New York is also authorized and directed to purchase, in accordance with the Guidelines and for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements, any or all of the foregoing currencies through forward transactions, up to a combined total of $50 million equivalent.

The Federal Reserve Bank of New York is further authorized and directed to purchase and sell, in accordance with the Guidelines and for the purpose of utilizing its holdings of one currency for the settlement of commitments denominated in other currencies, any or all of the foregoing currencies through forward as well as spot transactions, up to a combined total of $50 million equivalent.

Total foreign currencies held at any one time shall not exceed $1.75 billion.

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

October 1, 1963

1. Authority to effect transactions in System Account.

The Board's index of industrial production fell back 1 percentage point in August to 126, from a July high of 127. The decline reflected decreases in steel and auto production, where special temporary factors were at work. Nonagricultural employment also was reduced a little in August, and total personal income rose less than in most earlier months. In September the seasonally adjusted unemployment rate continued at about 5.5 per cent.

Retail sales were maintained in August at the advanced level of the preceding month, according to the latest data, but preliminary indications suggested that sales had declined in September. New housing starts fell in August, but the June-August average remained considerably higher than a year earlier.

Price advances for industrial goods had become more widespread, but with few exceptions the increases were modest and there continued to be offsetting declines. Through mid-August the monthly index for industrial commodities had changed little, and the subsequent weekly indexes continued stable. The consumer price index, which had risen appreciably in June and July, showed no change in August.

Despite the fact that some key measures had recently leveled off or shown modest declines after earlier rapid advances, GNP in the third quarter was indicated to be substantially above the

$580 billion annual rate reported for the second quarter of the year—perhaps as high as $589 billion.

In capital markets, corporate and municipal financing volume was relatively small in September. It appeared likely that corporate financing would decline further in October, but that State and local government financing would be sharply higher. Yields on new corporate bond issues had stabilized in recent weeks, while yields on municipal bonds had increased moderately further. Both were at the highest levels in over a year. Common stock prices in early September breached their late 1961 high, but most recently declined moderately.

In the Government securities market, long-term yields edged off from the highs reached in early September when the Treasury's advance refunding was announced. Yields on 3-month bills remained around the 3⅜ per cent level.

Preliminary estimates indicated that bank credit expanded considerably in September—by over $2 billion after seasonal adjustment—with all of the rise in loans. About half of the estimated increase was in security loans, reflecting in large part dealer borrowing in connection with the Treasury's advance refunding. Business loan growth also was somewhat larger than earlier in the year.

The seasonally adjusted money supply in the first half of September was estimated to have risen by about $400 million from the August average, following a decline of $200 million in August. Growth in time and savings deposits had continued large but at a slower rate than in August. Free reserves, although down sharply in the latest week, averaged about the same over the past 4 weeks as they had in the preceding 4 weeks.

The balance of payments apparently had improved somewhat in the third quarter, but the deficit evidently was still large. Industrial activity abroad continued its upward course.

While there were some differences of opinion within the Committee on monetary policy for the next 3 weeks, the range among types of policies contemplated was relatively narrow. Some

members favored seeking slightly less ease in the money market, on the grounds that the balance of payments problem remained serious while prospects for domestic economic activity appeared to them to be relatively encouraging. Others thought such a shift would be inappropriate in view of the continuing underutilization of domestic resources. After discussion, a decision against any change in policy at this time was reached by the Committee. The following current policy directive, which differed from the one adopted at the preceding meeting only by deletion from the second paragraph of the earlier reference to the Treasury refunding operation, was issued to the Federal Reserve Bank of New York:

It is the Committee's current policy to accommodate moderate growth in bank credit, while putting increased emphasis on money market conditions that would contribute to an improvement in the capital account of the U.S. balance of payments. This policy takes into consideration the continuing adverse balance of payments position and its cumulative effects and the high level of domestic business activity, as well as the increases in bank credit, money supply, and the reserve base in recent months. At the same time, however, it recognizes the continuing underutilization of resources.

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

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

Messrs. Hayes, Balderston, Mills, and Shepardson dissented because they favored seeking slightly less ease in the money market. Mr. Hayes commented that even a small modification in policy of the sort he favored would, in his judgment, have some significance; he did not feel that all policy changes had to be dramatic.

2. Amendment of continuing authority directive.

In accordance with the recommendation of the Account Manager, Section 1(a) of the continuing authority directive issued to the Federal Reserve Bank of New York was amended to raise from $1 billion to $1.5 billion the limit on changes in holdings of securities in the System Open Market Account between meetings of the Committee. A similar action had been taken at the meeting of June 18, 1963, but the former figure was restored at the meeting of July 30, 1963. With the action at this meeting, the wording of Section 1(a) shown in the entry for June 18, 1963, was again adopted.

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

3. Authority to purchase and sell foreign currencies.

On March 5, 1963, the Committee had authorized the Federal Reserve Bank of New York to undertake forward purchases of foreign currencies, within a specified dollar limit, for the purpose of permitting greater flexibility in covering commitments under reciprocal currency (swap) agreements. On May 28, 1963, forward and spot transactions were authorized for the additional purpose of settling commitments denominated in one currency by use of System holdings of another, within a separately specified dollar limit. At this meeting the Committee authorized purchases of foreign currencies through spot transactions and sales through forward transactions for the purpose of restraining short-term outflows of funds induced by arbitrage considerations. This authority was considered likely to prove useful when relationships among spot and forward foreign currency prices and interest rate differentials provided incentives for arbitrage operations involving potentially heavy outflows of short-term funds.

Concurrently with this action, the dollar limitations on forward operations for each of the two specific purposes previously authorized were removed, and a new dollar limit of $150 million equivalent was specified for all three types of authorized forward operations taken together, in order to provide greater flexibility in these operations.

These actions were reflected in the following amended continuing authority directive for transactions in foreign currencies, issued to the Federal Reserve Bank of New York:

> The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations reaffirmed by the Federal Open Market Committee on March 5, 1963, as amended May 28, 1963:
>
> Pounds sterling
> French francs
> German marks
> Italian lire
> Netherlands guilders
> Swiss francs
> Belgian francs
> Canadian dollars
> Austrian schillings
> Swedish kronor
>
> The Federal Reserve Bank of New York is also authorized and directed to operate in any or all of the foregoing currencies, in accordance with the Guidelines and up to a combined total of $150 million equivalent, by means of:
>
> (a) purchases through forward transactions, for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements;
>
> (b) purchases and sales through forward as well as spot transactions, for the purpose of utilizing its holdings of one currency for the settlement of commitments denominated in other currencies; and
>
> (c) purchases through spot transactions and sales through forward transactions, for the purpose of restraining short-term outflows of funds induced by arbitrage considerations.
>
> Total foreign currencies held at any one time shall not exceed $1.75 billion.

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

October 22, 1963

1. Authority to effect transactions in System Account.

The domestic business situation and outlook appeared generally favorable at the time of this meeting. Increases in September were recorded for new orders received by durable goods producers, new housing starts, and average hours of work. These series are among those that had tended in the past to move ahead of over-all activity. There was a note of caution in the economic appraisals, however, as some key measures, such as industrial production and the rate of unemployment, were unchanged in September, and retail sales declined. Weekly data for early October suggested that more recently retail trade was recovering and output was rising in the auto industry. GNP in the third quarter was estimated to have advanced by $9 billion, on a seasonally adjusted annual rate basis, to $588.5 billion.

Despite numerous announcements of price increases, the index of wholesale prices remained in the narrow range prevailing for several years. Stock market prices rose appreciably to about their previous peak on heavy trading volume. Stock market credit increased sharply in September.

Security financing by State and local governments was light in September, but estimates for October suggested sharp expansion. Corporate financing remained moderate in September, but contrary to earlier estimates was now expected to be somewhat larger in October. Yields on corporate and municipal bonds had declined slightly from their September highs. A more cautious tone had developed in the U.S. Government securities market. Yields on all maturities of Government securities edged up during the first half of October and at midmonth were generally at their highest levels of the year. On the day preceding this meeting the

3-month Treasury bill rate closed at 3.46 per cent, 9 basis points above its level of 3 weeks earlier. The upward pressure on bill rates reflected, in part, sizable Treasury additions to bill supplies. It was reported that the Treasury planned to announce shortly the terms on which it would refinance $7.6 billion of securities maturing November 15, 1963.

Bank credit, which had increased sharply in September, declined in early October mainly because of loan repayments by security dealers and finance companies. Business loans in early October continued to expand more rapidly than usual at this time of the year. Both the money supply and commercial bank time and saving deposits, seasonally adjusted, were estimated to have increased more rapidly in the first half of October than in the month of September. Free reserves at member banks averaged about $50 million in the 4 weeks ending October 16, compared with nearly $150 million in the preceding 4 weeks.

The balance of payments deficit showed a marked decline in the third quarter, on the basis of preliminary estimates. The improvement reflected primarily sharp reductions in capital outflows stemming in part from the effects of the proposed interest equalization tax and increases in domestic interest rates, especially short-term rates, that were associated with the July rise in Federal Reserve Bank discount rates. Economic activity in most foreign countries continued to expand.

With respect to monetary policy for the next 3 weeks, the Committee favored maintaining an "even keel" in the money market in view of the imminent Treasury financing. Some members, however, expressed concern about recent rates of increase in member bank reserves and in the public's liquid asset holdings and about the outlook for commodity prices. Others emphasized the marked improvement in the third quarter balance of payments figures, which they felt reduced the urgency of achieving greater money market firmness for the sake of moderating capital outflows. They also noted the continuing margin of underutilized domestic resources and had questions about the sustainability of the recent rate of growth in aggregate demand.

While the consensus favored no change in policy, the first paragraph of the current economic policy directive was revised to reflect the improved balance of payments position and the recent further expansion in the domestic economy. The second paragraph also was revised, to include a reference to the forthcoming Treasury financing and to employ language that, in the opinion of a majority, specified more clearly than the previous language the desired degree of money market firmness. The directive was issued to the Federal Reserve Bank of New York in the following form:

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

To implement this policy, and taking into account the imminent Treasury refinancing, System open market operations shall be conducted with a view to maintaining the degree of firmness in the money market that has prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

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

2. Authority to purchase and sell foreign currencies.

The Committee authorized the Federal Reserve Bank of New York to undertake negotiation of a standby reciprocal currency (swap) arrangement with the Bank of Japan in the amount of $150 million.

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

It was agreed that the reciprocal currency arrangement with Japan, when negotiated, would complete the set of such arrangements that the Committee presently contemplated. Note was taken of the fact that Japan, unlike other countries with which the System had entered into reciprocal currency arrangements, had not yet removed all restrictions on payments and transfers for current international transactions. A majority of the Committee believed, however, that it was appropriate to negotiate the arrangement at the present time because Japan was a country of major importance in international trade and finance and because the remaining restrictions on current account transactions were relatively minor and could be expected to be removed soon.

Mr. Mills indicated that in addition to substantive criticisms and objections to a reciprocal currency arrangement with Japan, his reasons for dissenting went beyond this particular transaction. He believed that there was an undesirable drift away from the original and more orthodox objectives in the System's foreign currency operations and by his dissent he also desired to crystallize awareness of this tendency within the Committee. Mr. Mitchell's dissent was based on a question as to whether the agreement with Japan was entirely compatible with what he understood to be the original purpose of the System's reciprocal currency arrangements—to ameliorate the balance of payments problem of the United States. He doubted that the short-term international financial position of the United States was sufficiently strong as yet to undertake assisting other countries with their balance of payments problems, or that short-term credits made available as a result of the swap arrangement would be basically helpful to the Japanese.

It was the view of the majority, on the other hand, that the arrangement was desirable because capital flows between Japan and the United States were subject to reversals in direction, and, more generally, because the reciprocal currency arrangements were best viewed as a mutual defense under which short-term credit would be extended by either party when required by the other.

In a related action the Committee modified the amounts and form of the dollar limitations specified in the continuing authority directive for System foreign currency operations. In place of the previous limit of $1.75 billion on total foreign currency holdings at any one time, two separate limits were specified: a limit of $1.95 billion on foreign currencies held under reciprocal currency arrangements, and a limit of $150 million on foreign currencies held as a result of outright purchase. The former figure was equal to the sum of the amounts currently specified by the Committee for all individual authorized reciprocal currency arrangements, and therefore represented the maximum of System covered holdings of foreign currencies under these arrangements, in the remote possibility that they might all simultaneously be fully drawn on. The limit of $150 million on forward transactions that had been previously specified was retained.

Reflecting these actions, the directive issued to the Federal Reserve Bank of New York 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 reaffirmed by the Federal Open Market Committee on March 5, 1963, as amended May 28, 1963; provided that the aggregate amount of foreign currencies held under reciprocal currency arrangements shall not exceed $1.95 billion equivalent at any one time, and provided further that the aggregate amount of foreign currencies held as a result of outright purchases shall not exceed $150 million equivalent at any one time:

Pounds sterling
French francs
German marks
Italian lire
Netherlands guilders

Swiss francs
Belgian francs
Canadian dollars
Austrian schillings
Swedish kronor
Japanese yen

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

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

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

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

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

Messrs. Mills and Mitchell voted favorably on this directive despite their opposition to a reciprocal currency arrangement with the Bank of Japan because the Committee earlier had approved negotiation of such an arrangement in an action to which their dissents were already recorded.

November 12, 1963

1. Authority to effect transactions in System Account.

Information available for October indicated a pick-up in domestic economic activity and broad stability in price indexes, but a continued high rate of unemployment. Industrial production was estimated at or fractionally above the September level, and retail sales had risen to a new high, with automobile markets especially strong. Construction activity continued steady at a level about 5 per cent above a year earlier.

Business sentiment appeared more optimistic than earlier. A private survey of business plans for 1964, released November 8, indicated an increase of 4 per cent in fixed capital outlays relative to 1963. In past business expansions this survey had tended to underestimate the amount of change actually realized.

Seasonally adjusted commercial bank credit expanded only moderately further in October, and growth so far this year had been somewhat slower than in the corresponding period of 1963. Business loan demand again was strong, and banks continued to make substantial sales of U.S. Government securities.

The private money supply, seasonally adjusted, increased substantially further in October. The rise was associated with an unusually large decline in U.S. Government deposits at commercial banks. Time and savings deposits also increased at a rate somewhat greater than in other recent months.

Stock market prices declined moderately in early November, after reaching new highs in late October. The October rise was associated with a large trading volume and a further increase in stock market credit. Effective November 6, the Board of Governors increased margin requirements from 50 per cent to 70 per cent.

Corporate and municipal financing increased sharply in October from the moderate volume of preceding months, but was expected to drop back in November. Yields on U.S. Government securities continued to rise and except for the longest maturities were at their highest levels since the spring of 1960. Rates on 3-month Treasury bills recently had moved above the 3½ per cent discount rate and prior to this meeting were 3.55 per cent. These rate increases were attributable to a combination of factors: a large volume of short-term issues by the Treasury in the last 10 days of October; continued bank liquidation of Government securities; increased optimism about the

business outlook; and an expectation, widely held in financial markets, that money market conditions might soon become somewhat firmer.

The third-quarter international payments deficit, sharply reduced from the second quarter by declines in direct investment, in new foreign security issues, and in outflows of short-term money market funds, was estimated at a seasonally adjusted annual rate of about $2 billion. (This estimate excluded the effects of special Government transactions and of the July reflux of window-dressing credits.) Abroad, activity was continuing to expand, but it seemed possible that limited availability of manpower and other resources in several major European countries in the face of expanding demands might result in slower rates of real growth, stronger inflationary trends, and more restrictive monetary policies in those countries.

The Committee believed that circumstances did not warrant a change in monetary policy at this time and agreed that over the next 3 weeks reserves should be supplied to accommodate the expected seasonal expansion in demand for bank credit.

Within this consensus, however, several members expressed concern about the recent increases in short-term interest rates, especially the rise in the rate on 3-month Treasury bills to a level somewhat above the discount rate. They felt that these increases were undesirable because they reinforced market expectations of imminent discount rate action and, if continued, would contribute to upward pressures on both domestic longer-term yields and interest rates abroad. Some other members felt that the recent increases in short-term rates and the firming of other credit market indicators were appropriate in view of the substantial recent expansion of the reserve base and the high level of liquidity in the economy. They expressed the view that a firmer policy posture might be warranted in the near future.

The current economic policy directive issued to the Federal Reserve Bank of New York differed from the one adopted at the previous meeting of the Committee only by deletion of a reference, no longer applicable, to Treasury financing. It read as follows:

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

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

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

Mr. Mills dissented because he felt that present policy was undesirably restrictive for viability of the domestic economy. He thought that measures required to combat any further balance of payments difficulties should be taken in the area of fiscal controls, and he favored increasing the supply of reserves to relieve some of the existing upward pressure on interest rates and to reduce what he considered to be a threat to appropriate growth in the money supply.

2. Amendment of continuing authority directive.

In accordance with a suggestion of the Account Manager, Section 1(a) of the continuing authority directive to the Federal Reserve Bank of New York was amended to reduce the limit on net changes in the System Open Market Account in any period between meetings of the Committee to $1 billion from the $1.5 billion that had been established at the meeting on October 1. Earlier in the year the limit had been $1 billion,

except for the period between the meetings of June 18 and July 30, when it was $1.5 billion.

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

3. Authority to purchase and sell foreign currencies.

Since early September the U.S. Stabilization Fund had been engaged in a program of spot purchases of Italian lire for two purposes: to help the Italian authorities cushion the abrupt decline that had been occurring in their monetary reserves, and to accumulate funds for repayment of the Treasury's bonded debt denominated in lire and maturing over the period from March 1964 to September 1965. However, the resources of the Stabilization Fund for this type of operation were limited. The Special Manager of the System Account recommended that the Federal Reserve Bank of New York be authorized to make spot purchases of Italian lire, at a rate above par if necessary, for purposes of immediate forward sale to the Treasury at the same rate, in order to assist in achieving the two objectives underlying recent Treasury lire purchases. He also recommended that authority be granted to conduct similar operations in other foreign currencies in which the Treasury had outstanding indebtedness to facilitate Treasury repayment of these debts. The Committee concluded that such operations appeared sufficiently likely to be useful to warrant their approval on an experimental basis, and the continuing authority directive for System foreign currency operations was amended by the addition of the following paragraph:

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

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

November 26, 1963

Authority to effect transactions in System Account.

This meeting was held by telephone on the first business day following the death of President Kennedy. It was called for the purpose of considering whether action by the Committee was required to deal with any actual or potential unsettlement in domestic financial markets or in foreign exchange markets stemming from the President's death.

Reports by the Manager and the Special Manager of the System Open Market Account indicated that there was no evidence of adverse market developments as of late morning. The Account Manager reported that the Government securities market had opened with a confident tone, and that prices at the opening were unchanged or slightly higher on securities of various maturities. The stock market already had made a good recovery in early trading. The Special Manager noted that gold and foreign exchange markets were steady, and that where necessary central banks were acting to maintain foreign exchange rates at their previous levels.

The Committee decided that it was desirable, as a precautionary measure, to revise its current economic policy directive in order to insure that the Federal Reserve Bank of New York would have ample authority to deal with any unsettlement that might develop. The revision was confined to the second paragraph, and the directive was issued in the following form:

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

To implement this policy, System open market operations shall be conducted with a view to cushioning any unsettlement that might arise in money markets stemming from the death of President Kennedy and to maintaining about the same conditions in the money market as have prevailed in recent weeks, while accommodating moderate expansion in aggregate bank reserves.

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

Mr. Mills dissented for the same reasons he had dissented from the directive adopted at the meeting of November 12, 1963; he thought the Committee should modify its policy to one of greater ease.

December 3, 1963

1. Authority to effect transactions in System Account.

Information on economic and financial developments since the death of President Kennedy, while quite incomplete, suggested that the economy had shown little tendency to depart from the path of continued moderate advance in over-all activity and broad stability of commodity prices. Business and consumer confidence appeared to have remained firm and widespread. Unsettlement in sensitive commodity and security markets had been minimal, and corporate stock prices had quickly recovered from the losses suffered on November 22. Speculative switching out of dollars into other currencies or gold had been limited.

More complete data on domestic activity in October confirmed earlier indications of a distinct pick-up in that month, with gains noted in such measures as industrial production, nonfarm employment, personal income, housing starts, and retail sales. New orders for durable goods and capital appropriations by manufacturers also were reported to have risen. Scattered data for November added to the impression of some continued over-all expansion. However, the unemployment rate in October remained at the 5.5 per cent level of other recent months and gave no sign of declining in November.

In financial markets, the yield on 90-day Treasury bills had declined several basis points to a level slightly below the 3½ per cent discount rate during the week preceding this meeting, but more recently it had risen again and had closed at 3.53 per cent on the previous day. Yields on long-term U.S. Government securities were steady. The volume of corporate and municipal financing was moderate in November, but yields on new corporate issues increased to the highest level in more than a year.

Bank credit expansion was large in the first 3 weeks of November, and business loans showed a marked rise. The seasonally adjusted money supply rose sharply again in November, and time and savings deposits also expanded further.

The balance of payments deficit in October and the first 3 weeks of November was somewhat above the third-quarter rate but substantially below the rates for the first 2 quarters.

The Committee concluded that it was appropriate to continue the policy it had been following in recent weeks, in light of these domestic and international developments and in view of the fact that only a short time had elapsed for appraisal of business and financial reactions following the death of President Kennedy. The directive adopted at the meeting of November 26, 1963, was therefore renewed without change.

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

Mr. Mills, who had voted against the directives adopted at the two preceding meetings, dissented from this action also, because he continued to believe that the Committee should adopt a policy of greater ease.

2. Authority to purchase and sell foreign currencies.

The Committee amended the first paragraph of its continuing authority directive for foreign currency operations to increase the limit on the aggregate amount of foreign currencies held under reciprocal currency (swap) arrangements at any one time from $1.95 billion to $2.05 billion. With this amendment, the first paragraph of 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 reaffirmed by the Federal Open Market Committee on March 5, 1963, as amended May 28, 1963; provided that the aggregate amount of foreign currencies held under reciprocal currency arrangements shall not exceed $2.05 billion equivalent at any one time, and provided further that the aggregate amount of foreign currencies held as a result of outright purchases shall not exceed $150 million equivalent at any one time:

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

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

The previous limit of $1.95 billion, which had been established at the meeting of October 22, 1963, was equal to the sum of the amounts authorized for individual swap arrangements at that time. On November 22, 1963, Committee members had approved increases of $50 million each in the swap lines with the Swiss National Bank and the Bank for International Settlements, effective November 25, 1963. This action, which was ratified by the Committee at this meeting, raised the sum of the individual swap lines to $2.05 billion. The purpose of the amendment to the continuing authority directive was to make the limit on aggregate foreign currency holdings under swap arrangements again equal to this sum.

December 17, 1963

Authority to effect transactions in System Account.

At this meeting optimism about the economic outlook was reported to be widespread and to have increased recently as prospects for a tax cut early in 1964 appeared to have brightened. Preliminary estimates of GNP for the fourth quarter suggested growth at about the same rate as earlier in the year.

Some grounds for caution in assessing the outlook were noted, however. Results of the latest survey of business plans for capital outlays showed less strength in this area than had been widely anticipated; they indicated that fourth-quarter outlays were not expected to be quite so large as had been reported earlier and that there probably would be little change from the fourth quarter to the first quarter of 1964. Also, in November some key measures, such as industrial production and retail sales, showed little or no improvement from October or from levels that had been reached in July. The unemployment rate rose to 5.9 per cent in November from 5.5 per cent in October.

The wholesale price index for industrial commodities was unchanged from October to November, and less complete weekly indexes suggested that stability continued into early December.

The consumer price index rose slightly in October and remained about 1 per cent above a year earlier.

Yields on 3-month Treasury bills continued to fluctuate around the 3½ per cent level, but those on Treasury notes and bonds edged up after late November to new 1963 highs. Corporate bond yields also rose on a large volume of new financing, while yields on municipal securities declined on unusually small volume. Common stock prices rose further to near their October peak.

Bank earning assets continued to expand in late November and early December, but figures for city banks suggested some recent softening of earlier strong private credit demands. A good part of the substantial increment in business loans at city banks in this period represented special financing arrangements and acquisitions of bankers' acceptances. Holdings of U.S. Government securities rose more than usual for this period, as banks were allotted practically all of a $1 billion Treasury bill issue for which 50 per cent payment in the form of tax-and-loan-accounts credit was permitted.

The money supply apparently changed little in the last half of November and the first half of December, and growth in time and savings deposits appeared to have slowed. Free reserves on average were about the same in the 4 weeks ending December 11 as in the preceding 4 weeks. During part of the early December period, however, the money market was unexpectedly easy, with Federal funds trading in substantial volume below the 3½ per cent discount rate on several days. Banks met the demands for funds associated with December tax and dividend dates with little or none of the strains they often experience at this season.

Estimates of the U.S. balance of payments for the fourth quarter, based in part on preliminary figures for the first 2 weeks of December, suggested that the deficit would be above the reduced third-quarter rate but below the rate of the first half.

It was the judgment of the Committee that no change should be made in monetary and credit policy at this time. Factors seen as militating against a shift toward less ease included the moderate pace of business expansion in November, the absence of evidence of general inflationary pressures, and the continued high level of unemployment. Some members expressed the view that the widespread optimism about business prospects was disproportionate to actual recent gains in activity; they felt that more evidence on the continuing vigor of the expansion was necessary before a policy shift would be appropriate. Difficulties of gauging the outlook during the present holiday season were noted. The prospect of considerable churning in the money market over coming weeks, as seasonal demands for credit decline and the customary return flow of currency to commercial banks occur, was advanced as an argument against modifying policy in either direction at the present time.

The Committee concluded that it was no longer necessary to retain the clause relating to unsettlement in money markets stemming from the death of President Kennedy that had been included in the second paragraph of the current economic policy directives adopted at the two preceding meetings. With this clause deleted, the directive issued to the Federal Reserve Bank of New York read as follows:

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

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

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

Mr. Hayes dissented from this action because he favored a modest shift in policy toward less ease. He thought such a shift appropriate not only because of the continuing adverse balance of payments but also because he considered recent growth rates of bank credit and nonbank liquidity to be excessive from a domestic viewpoint, and to have potentially undesirable consequences for credit standards. He observed that if the Committee did not modify policy at this meeting, successive Treasury financings tentatively scheduled for early 1964 might militate against such action being taken in the near future.

Mr. Mills, who continued to favor a policy of greater ease, noted that the actual level of reserve availability in the period since the preceding meeting was consistent with his view of a viable and constructive credit policy. He dissented from the action on the directive, however, because he did not believe that a continuation of recent monetary conditions was compatible with the language of the directive.