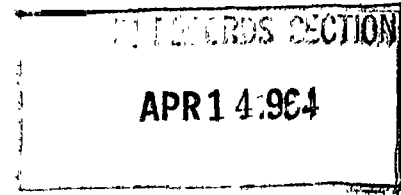




BOARD OF GOVERNORS
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FEDERAL RESERVE SYSTEM
WASHINGTON

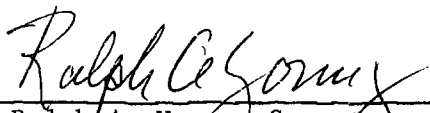


April 13, 1964.

CONFIDENTIAL (FR)

TO: Federal Open Market Committee SUBJECT: Current economic
policy directive
FROM: Mr. Young

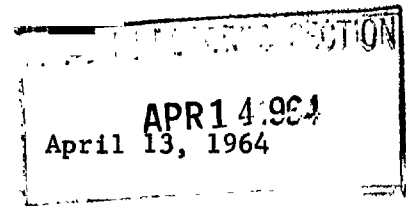
Attached herewith are alternative drafts of paragraphs one and two, prepared by the Secretariat in consultation with Committee staff and the Account Manager and suggested for consideration by the Committee at its meeting tomorrow. These drafts have been developed in the light of the staff memorandum on the problem presented by this form of directive which was circulated to the Committee on April 8, 1964.



Ralph A. Young, Secretary,
Federal Open Market Committee.

Attachment

CONFIDENTIAL (FR)



Draft current economic policy directives suggested for
consideration by the Federal Open Market Committee
at its meeting on April 14, 1964

Alternatives for First Paragraph

Alternative A:

It is the Federal Open Market Committee's current policy to accommodate moderate growth in the reserve base, bank credit and the money supply in order to facilitate the financing of further expansion of the economy and to foster further improvement for the capital account of U.S. international payments, while seeking to avoid the emergence of inflationary pressures. This policy takes into account the expected progressive stimulus to domestic activity from the recent Federal income tax reduction and the increases projected for the year in business capital expenditures. It also gives consideration to the slower growth of aggregate bank reserves and the money supply in the first quarter of this year as compared with the fourth quarter of last year; the continued relative stability in average prices; the country's improved, though still unsettled, international payments position; and the advances in interest rates over past months in important markets abroad.

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Alternative B:

The Federal Open Market Committee notes that domestic economic activity continues to expand at a moderate pace with relative stability in average prices, and that the existing margin of unutilized resources will permit further expansion. It also notes that progressive stimulus to activity will be exerted over coming months by the recent reduction in Federal income tax rates and by the increases projected for the year in business capital expenditures. In addition, the Committee has taken account of the slower growth in aggregate bank reserves and the money supply in the first quarter of this year as compared with the fourth quarter of last year; the further improvement in the economy's payments balance internationally; and the possibly adverse effects on the capital account of the payments balance arising from interest rate advances over past months in important markets abroad. In the light of these developments, it is the Committee's current policy to accommodate moderate growth in the reserve base, bank credit and the money supply in order to facilitate the financing of further expansion of the economy and to help sustain the improved position for the capital account of U.S. international payments, while seeking to avoid the emergence of inflationary pressures.

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Alternatives for Second Paragraph

Alternative A:

To implement this policy, System open market operations for the next three weeks shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed on average since the Committee's last meeting, with weekly average free reserves generally in the range of \$50 to \$150 million, and Treasury bill rates adjusting daily to shifts in money market forces. However, money market conditions shall be permitted to ease or tighten, as necessary, to cushion any substantial and persistent change in the rate on three-month Treasury bills. The Committee believes that operations so conducted will be consistent with moderate upward trends in aggregate bank reserves, total bank credit, and the money supply.

Alternative B:

In the context of this general policy, System open market operations for the next three weeks shall be conducted with a view to maintaining about the same conditions in the money market as have prevailed since the Committee's last meeting. The Committee expects that the operations so conducted will be consistent with moderate upward trends in aggregate bank reserves, total bank credit, and the money supply.