A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, May 26, 1959, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Allen
Mr. Balderston
Mr. Deming
Mr. Erickson
Mr. King
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Bryan, Alternate for Mr. Johns

Messrs. Bopp, Fulton, and Leedy, Alternate Members of the Federal Open Market Committee

Messrs. Leach, Irons, and Mangels, Presidents of the Federal Reserve Banks of Richmond, Dallas, and San Francisco, respectively

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Jones, Marget, Mitchell, Parsons, Roosa, and Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account

Mr. Molony, Special Assistant to the Board of Governors
Mr. Koch, Associate Adviser, Division of Research and Statistics, Board of Governors
Mr. Keir, Acting Chief, Government Finance Section, Division of Research and Statistics, Board of Governors

Mr. Freutel, First Vice President, Federal Reserve Bank of St. Louis

Messrs. Ellis, Hostetler, Daane, Tow, Rice, and Wheeler, Vice Presidents of the Federal Reserve Banks of Boston, Cleveland, Richmond, Kansas City, Dallas, and San Francisco, respectively
Mr. Stone, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Anderson, Economic Adviser, Federal Reserve Bank of Philadelphia
Mr. Brandt, Economist, Federal Reserve Bank of Atlanta

It having been noted that Mr. Freutel, First Vice President of the Federal Reserve Bank of St. Louis, was in the Board's building today, he was invited to attend this meeting in the absence of Mr. Johns.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on May 5, 1959, were approved.

Before this meeting there had been distributed to the members of the Committee a report of open market operations covering the period May 5 through May 20, 1959, and a supplementary report covering the period May 21 through May 25, 1959. Copies of both reports have been placed in the files of the Committee.

Mr. Rouse stated that the money market was steadily tight during the first part of the period since the last meeting, then turned easier, and over the past few days tightened again. The reasons for the temporary easing, which essentially reflected excess borrowing around May 15, were spelled out in reports sent to the Committee last week. The Account purchased Treasury bills and made some repurchase agreements in the early part of the period in an effort to temper the tightness in the market during the period of Treasury financing, but the direction of operations was subsequently reversed and bills were sold to foreign accounts, while all outstanding repurchase agreements were allowed to run off without replacement. The System Account remained on the sidelines during the past few days, and the market tightened itself. Over the period as a whole, outright holdings of bills were up by $181 million, while repurchase agreements were down by $163 million. Average net borrowed reserves had been running between $200 and $300 million, and reserve projections as of last night indicated an average of somewhat over $300 million net borrowed reserves for the week ending tomorrow.

Mr. Rouse went on to say that the Treasury's auction of April bills turned out to be quite successful. The volume of bank tenders was fairly large, partly because the banks needed the tax and loan account deposits in order to avoid a depletion of such deposits on May 15. Also, some banks regarded the April bill as a good piece of paper to hold. Generally, the issue had performed well and banks wishing to sell the bills had been able to make good progress in distributing them. The bidding on the December bill, however, was unexpectedly light and a large part of the issue ended up in the hands of dealers and banks which had not expected to acquire so many bills at the rates they tendered. Dealer awards were over $850 million, but no serious problems were created since the dealers were confident that they could carry the bills without loss until such time as they could be distributed, and in fact a substantial distribution of the issue had now been made. The attrition on the 1-1/4 per cent certificates that matured on May 15 was somewhat high at 30 per cent but was no higher than the market had come to expect. The small new 4 per cent certificate issue had performed well in the market and closed yesterday at 100-1/8 bid.

Mr. Rouse also stated that short-term bills had remained in short supply; a fairly well sustained storm cellar demand had kept rates on these issues at presently low levels. In the intermediate and long-term sectors of the Government securities market, prices had tended to move slightly higher in the past few days on light volume. While the market generally anticipated an early increase of 1/2 per cent in the discount rate, it was felt by many that intermediate and long-term rates had already discounted an increase of that size and that such rates might hold at around present levels, over the short run at least. The market apparently felt, however, that bill rates were too low in terms of the underlying realities, and such rates were expected to move upward with an increase in the discount rate.

Mr. Rouse said that the short-term market had absorbed a large volume of Federal Agency securities during the past three weeks. Total agency financing in this period amounted to $525 million, of which $300 million represented new money. All of this financing was at nine months or less, and rates ranged between 4-1/4 per cent for six months and 4-1/2 per cent for nine months.

Mr. Rouse observed that over the past few weeks an increase had occurred in the amount of six-month Treasury bills tendered for by foreign accounts. In yesterday's auction foreign accounts tendered through the New York Bank for about $100 million of the six-month bills--almost one-quarter of the issue. They were acquiring the six-month bills with the proceeds of sales and redemptions of shorter bills and by switches out of time deposits.

Mr. Rouse also commented that this would be an active week in the capital markets. Outstanding in size and importance were the $104.8 million issue of New Housing Authority tax-exempt bonds and the $75 million issue of Consolidated Edison mortgage bonds being offered today. There would be offered tomorrow an $80 million mortgage bond issue of National Steel and a $30 million bond issue of the City of Chicago. Yesterday, a 5 per cent reoffering yield was placed on a double-A rated utility issue for the first time since August 1957. The issue, which initially moved slowly, had no special provision protecting the holder from an early call.

Mr. Rouse called attention to the fact that the appendix to the weekly report to the Committee had grown very substantially and usually ran between 20 and 25 pages in length. It was proposed to make some deletions and consolidations in the appendix, and either this week or next an abbreviated version would be sent along with the regular appendix material. He would like to be informed if it was believed that anything useful had been left out of the abbreviated version.

> Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period May 5 through May 25, 1959, were approved, ratified, and confirmed.

Mr. Young made a statement on the economic situation, supplementary to the staff memorandum distributed under date of May 22, 1959, substantially as follows:

> Domestically, productive activity has been spurting ahead and the economic climate has become more palpably inflationary. In virtually every sector, expectations are optimistic; indeed, about the most pessimistic business comment one encounters is that "it may not be as good as the figures show" or "we now expect the figures to level off some." The lag in United States exports persists, and participants in international financial transactions report a deepening concern in foreign circles about United States balance of payments trends.
>
> In industrial countries abroad, the onset of general economic recovery is now better than well-confirmed and there is every reason to expect such recovery soon to burgeon into a full-fledged expansion movement, as it has already in Canada and Japan. The European economic climate appears less inflationary than our own, but this may reflect merely the early stage of recovery there.

Whatever the actuality, it is clear that reattainment of European industrial expansion will do much to relieve the adverse balance of payments pressures that materials-supplying areas have been suffering. One may also hope that renewed European expansion will help a great deal in alleviating the United States international payments deficit which continues to rival that of last year.

As to specifics:

April expansion in industrial production, which carried the Board's index up two points for the third consecutive month, reflected mainly gains in output in durable goods industries, producer as well as consumer lines. The weekly output data so far available for May indicate another brisk advance in total industrial output, possibly again up two index points.

New orders at manufacturers, which showed a sharp step-up in March, took another sizeable upward step in April. Forward commitments for machinery purchase have been a conspicuous feature of new order developments. Since December, unfilled orders at durable manufacturers have been rising, in recent months most impressively.

For several months now, personal income has been climbing at a rate of better than $3 billion a month, principally because of higher wage and salary payments. This pace of increase is rivalling, if not beating, that for the comparable months of the 1955-57 period of inflationary expansion. For seven months now, total unemployment payments have shown decline.

Reflecting rapidly rising personal income, April retail sales exceeded slightly the very large March volume and were some 12 per cent higher than the cycle low of March 1958. An advance estimate of department store sales for May puts sales almost 4 per cent higher than April, a degree of rise that may be partly statistical illusion. However, sales of new autos in early May were running 9 per cent higher than in early April, nearly 50 per cent higher than a year ago, and 15 per cent higher than in early May 1957. In used car markets, sales continue very strong and prices, at a level some 15 per cent higher than a year ago, appear firm.

Since late 1958, a robust expansion in consumer instalment credit has supported rising sales of autos and high level sales of household durables. The first quarter increase in auto credit was the largest since the first quarter of 1956, and the credit rise for diversified consumer durables was the largest since the last quarter of 1956. Liberalization of credit terms in late model used car financing was apparently a factor of some importance in the rise in auto credit. Collections on instalment paper have shown steady improvement since last fall and now compare with prerecession standards.

Strength of housing markets was attested by the April starts figure approximating 1.4 million units, seasonally adjusted. Starts for the first four months of 1959 were the highest on record. Mortgage markets, as indexed by mortgage yields and by FNMA activities, give further signs of hardening. This is scarcely surprising if the staff's estimate of first quarter increase for real estate mortgage debt is correct; the rise was nearly $4.2 billion, a handsome first quarter performance by postwar criteria. The new Dodge seasonally adjusted monthly index of the dollar value of total construction contracts has just been published. It shows an 8 per cent increase in contract awards during April to the highest level on record, 31 per cent above a year earlier. Covering 48 States, the index includes residential and nonresidential building as well as heavy engineering. It is based on a 1947-49 monthly average equal to 100, and it is available solely for total awards and not their components. Relative to the 1947-49 base, the April index was 299.

With markets for products exhibiting perceptible vigor, all-round strength should and does characterize the labor markets. Unemployment compensation claims continue to decline. At mid-May, the Department of Labor reclassified major labor markets by unemployment status as compared with mid-March. All 149 markets experienced some reduction in unemployment rates and the number with rates of 6 per cent or more was lowered from 74 to 60. Michigan markets continue to fall in the high rate classification; other markets in this category have either coal or durable goods as a production base.

Accepting a 40-hour week as a standard, manufacturing industry in April attained an average overtime basis of .3 of an hour. In most metal-working and some nondurable industries, average overtime was one hour. Reflecting a lengthened workweek and a further increase in hourly earnings, average weekly earnings of factory workers rose again in April by 60 cents to $89.87.

In agriculture, crop prospects appear less favorable than last year. But, reflecting last year's prosperity, farmers have been adding substantially to their debts, or at least did in the first quarter. Also, they have continued to bid up land values. Farm land values as of March 1 were up on average some 3 per cent from November 1 of last year and up 8 per cent from a year ago.

Industrial prices rose further in April and additional advance has occurred in May. At mid-May, the level was up 2.5 per cent from a year ago and 2 per cent above the pre-recession high reached late in 1957. Sensitive materials prices have advanced more and this has provided a base for lifting the prices of finished products made from these materials. With average prices of farm products showing little change, recent price advances in the industrial sector have been raising the average of all prices.

Consumer prices rose slightly in April. Food prices changed little but prices of other goods, services, and some taxes increased. With these price trends persisting in consumer markets, a further modest rise in the May index is projected.

At an earlier meeting this spring, we observed that, from a cyclical standpoint, upward price pressures typically gain powerful force only after economic activity has breached the highs of the prerecession period. Such a breaching, accomplished with obvious ebullience, is now a matter of history. A feature of the breaching phase has been an abnormally high rate of bank credit and monetary expansion, regarding which Mr. Thomas will comment on in detail. One may well wonder whether, despite System plans and hopes to avoid such a contingency, financial forces fostering another inflationary whirl have not gotten well ahead of System policy. The accumulating body of factual evidence to this effect is quite impressive.

Mr. Thomas made a statement on financial developments substantially as follows:

In financial markets, the month of May has been characterized by unseasonably heavy credit demands and further increases in interest rates to new high levels. Nearly all interest rates rose except yields on 90-day Treasury bills, which continued to move within the lower part of the 2-3/4 to 3 per cent range that has generally prevailed since late February. The six-month bills, following a little drop in late April, rose back to around the 3-1/3 per cent level. Yields on longer bills have been as high as 4 per cent for the new April issue.

The spread of one per cent or more between the yield on three-month bills and that on issues maturing in around one year is the largest on record. It unquestionably reflects the desire on the part of investors for maintenance of liquid positions in view of the possibility of further interest rate increases. At the same time, the rate is attractive enough to draw in funds that might otherwise be held as bank balances.

Announcement of the increase in the lending rate on prime customers' loans by large city banks from 4 to 4-1/2 per cent on May 15 was followed by only a mild reaction in the Government securities markets. Long-term rates continued to rise somewhat, but short-term rates have steadied. The firmness in short rates probably reflected some temporary ease in bank reserve positions as well as investment of the proceeds of the redemption of maturing Treasury issues. Yields on long-term Treasury bonds and on both new and seasoned corporate issues rose last week to new high records.

Offerings of new issues of securities were in moderate volume last week, but are scheduled to be larger this week. Although the higher yields have met better reception than the lower yields on last month's offerings, there have, nevertheless, been some deferments of new offerings because of market conditions. The calendar for future issues by State and local governments continues large. Prospects for corporate borrowing are uncertain, particularly in view of the large cash flow being derived from depreciation allowances, retained earnings, and accrued tax liabilities. For the year to date new issues by corporations and by State and local governments have been in somewhat smaller volume than they were last year, but aggregate demands on credit markets have continued large, reflecting needs of the Federal Government and increased mortgage borrowing, as well as a larger volume of bank loans to businesses and consumers.

Stock prices have again risen to peak levels. The rise in prices has kept pace with increases in dividends, so current yields continue low, compared with their past record and with bond yields. Stock market credit has increased somewhat further and customers have drawn upon their credit balances at brokers.

The Treasury continues to show a relatively favorable cash position, notwithstanding the large redemption of maturing issues in mid-May. It appears likely that no additional borrowing will be needed until early July, with announcement of terms near the end of June. About $3.5

billion of cash will be needed then, but the exact amount will depend upon the extent to which appropriated, but yet unexpended, funds are used before the end of the fiscal year. Additional financing operations for refunding and for new cash will be in process from late July until around mid-August with no further needs until early October. Borrowing needs for both cash and refunding will be large in the fourth quarter and will probably require frequent offerings in all months and also possibly in January. On balance, net cash borrowings in the next 8 months, though still very large, will be nearly $4 billion less than in the same months last year and they will be followed by substantial debt retirement instead of continued borrowing.

Following an exceptionally large increase in bank loans at all commercial banks in April, city banks showed a further expansion in loans during the first three weeks of May. In the same weeks of the two previous years loans at city banks declined, and increases in 1955 and 1956 were not as large as this year's additions. The increase has been particularly large in business loans, but real estate and consumer loans have also continued to show marked increases, and loans on securities have stayed up.

City banks have continued to liquidate holdings of Government securities on balance, notwithstanding acquisition of new issues at times of financing operations. Substantial reductions have occurred in holdings of bonds, notes, and certificates. Banks have fewer long-term issues and relatively more medium and short-term issues than they had a year ago. At city banks total holdings of Government securities are less than they were a year ago.

The ratio of total loans to total loans and investments of banks, which declined moderately last year, has risen again to close to the high level reached in 1957. In view of the relatively high loan ratios at banks, some question may be raised as to their ability to meet a substantial further expansion in loans without impairing their liquidity positions. Because of declines in prices of securities, banks may be somewhat more inclined to meet additional loan demands through borrowing rather than through further liquidation of securities.

Private deposits at city banks declined somewhat more in the first three weeks of May than in the same weeks of other recent years. It would appear that on a seasonally adjusted basis, the demand deposit component of the money supply may have shown little if any further growth in the first three weeks of May, following marked increases in the three preceding months. U. S. Government deposits have increased more than usual, and some shift from Treasury deposits to private deposits may occur in the next few weeks. Currency in circulation appears to have shown a greater than seasonal increase in May to date, following a less than seasonal decline in April. It is evident that the money supply in the aggregate has shown a marked increase in recent months, after adjustment for seasonal variations. The growth has been at an annual rate of 4 per cent or more.

In addition to the increase in the volume of money, the turnover of bank deposits has also increased in recent months. In other words, economic activity has expanded somewhat faster than the volume of money. There is evidence that much of the cyclical variation in economic activity may be reflected in turnover of money rather than in changes in the volume of money.

It may be said that the reserve base for the expanded money supply--or the less than seasonal decline--has been obtained from an increase in member bank borrowing. Although the System has increased its open market portfolio in recent months, contrary to usual seasonal tendencies, the additions have been only sufficient to cover unusual drains on reserves from other factors. These include particularly the contra-seasonal increase in currency in circulation and in recent weeks the resumed outflow of gold. Since the end of January, required reserves have declined by some $300 million less than the seasonal projection, reflecting a less than seasonal decline of about $1.5 billion in demand deposits adjusted and an increase of $700 million in Treasury deposits. In the same period, net borrowed reserves have also increased by about $300 million. Somewhat similar results, with different figures, may be shown for the past two months.

Whether by happenstance or by design, it is appropriate, in view of the strength of the economic advance and of credit demands, that banks should find it necessary to borrow the reserves needed to cover deposits in excess of normal seasonal amounts. It is nevertheless true that if banks have been willing to borrow for this purpose, they may be willing to borrow more to meet further credit demands. It is evident that the added restraint of a discount rate increase is appropriate, particularly in view of the recent further rise in market interest rates.

Question may also be raised as to whether borrowings might be permitted to increase further, even to cover customary seasonal needs, in order to strengthen the restraint on banks. Projections indicate that seasonal needs, together

> with a continued gold outflow projected at $25 million a week, may bring net borrowed reserves close to $500 million during the next month, with a rise to around $800 in late June and early July. Perhaps if the discount rates are raised, net borrowed reserves of around $300 million would be appropriate, if monetary expansion keeps within the seasonal pattern. If, however, banks increase their loans and investments sufficiently to produce a greater than seasonal growth in the money supply, then the additional reserves might be supplied through the discount window rather than by open market operations.

Mr. Balderston referred to comments by Mr. Thomas concerning the money supply and inquired as to the recent trend in time deposits. In response, Mr. Thomas stated that in the first four months of this year time deposits at commercial banks increased $1.3 billion compared with an increase of $3.8 billion in the same period last year. For the twelve months ending April 30, 1959, the increase was $4.6 billion compared with an increase of $6.9 billion during the twelve months ending April 30, 1958. Thus the rate of increase had slowed down but was still not insignificant. In the first three weeks of May, however, there was practically no increase in time deposits.

At the request of the Chairman, Mr. Marget made substantially the following statement with respect to the balance of payments situation:

> The simple facts with respect to our balance of payments are these:
>
> Last year we ran an over-all deficit of $3.4 billion, of which $2.3 billion took the form of gold outflow.
>
> Thus far this year we have been running an over-all balance-of-payments deficit at about the same rate. This year a smaller proportion of it has taken the form

of gold outflow. But even if it were safe to count on this continuing to be so, that would only mask the fact that we were running a very sizeable deficit. It would not mean that we had brought our international accounts into balance.

The outflow of gold and dollars as a result of an over-all balance-of-payments deficit of the United States is in itself nothing new. In the four years 1953 to 1956, for example, we ran over-all deficits which resulted in the transfer, on the average, of around $1.5 billion in gold and dollars to foreigners each year.

What, then, is new about our balance-of-payments position?

What is new, in the first place, is the size of the deficit, by comparison with previous deficits. What matters most about our balance of payments deficit is the direction in which it is going, and after all $3 billion is twice as much as $1.5 billion.

But what is also new is the competitive setting in which we have to work our problem out. The annual deficits of $1.5 billion in the years 1953-56, and the transfer of gold and dollars in which they resulted, could be regarded as part of our contribution to world recovery. It helped our trading partners build up monetary reserves while they continued to gather strength and approach the degree of competitiveness with us that is needed for international balance. But it is quite obvious now that our principal partners have in fact become competitive, and that the goal, from now on, should be one of establishing balance in our international accounts.

There are only two ways of establishing balance. Either we balance downwards or we balance upwards.

We don't want to balance downwards, by restricting imports, or by slashing aid programs beyond all reason, or by interposing obstacles to outflow of private capital. We don't want to do it this way, if for no other reason, because the downward "adjustment" would in all probability turn into a cumulative downward movement, which is the last thing in the world that we want.

So we must think in terms of an adjustment of our balance of payments upwards and this means, basically, an expansion of our exports to a level such that they will be sufficient to cover our total import bill, plus such aid programs and private capital outflow as we wish to support, instead of our having to meet a considerable part of this total by the transfer of gold and dollars.

And an expansion of our exports means two things, basically. It means, first of all, the use of the influence of our Government, in every appropriate international forum, to secure the removal of such discriminatory restrictions as continue to exist against our exports. But it means, much more importantly, that we dare not flag in our pursuit of those policies which we must follow if we are to keep our exports competitive. Quite obviously, it will not be monetary policy alone that will decide whether our exports will remain competitive. But, just as obviously, monetary policy certainly has its contribution to make toward that end, and, so far as our balance-of-payments position is concerned, there can hardly be any question as to the direction in which that contribution ought to be.

Mr. Hayes then made a statement of his views on the business outlook and credit policy substantially as follows:

It seems to me clear that, now that the Treasury's financing is out of the way and there is in prospect a "free" period of about a month before the next Treasury operation, it behooves us to give a very careful look at current monetary policy to see whether it is appropriate to the current state of the economy and is doing all that it can to promote sustainable growth and to prevent an inflationary upsurge.

There has been an accumulation of evidence in the past three weeks pointing to broadening and strengthening of the business expansion, which now appears to have sufficient momentum to carry it at least through this calendar year. Heretofore we have faced an appreciable risk that firm credit restriction might put a real crimp in the upward movement of the economy--but now this risk appears much less serious than at any time since the recovery began.

I shall not try to document the strength of the current expansion, as Mr. Young has already done that admirably, but it has been marked by great vigor of personal consumption, a high level of construction activity, growing inventory accumulation, and a tendency, as yet quite moderate, toward an upward revision of planned business expenditures on plant and equipment. Inventory-sales ratios are still close to their lowest levels, thus suggesting scope for considerable expansion.

Perhaps the most encouraging single development of the last few weeks has been the marked improvement in the employment situation reported for April. Although unemployment remains somewhat higher than at a similar stage of other postwar recovery periods, the recent trend suggests that, apart from certain pockets of "structural" unemployment, the unemployment problem, with all of its economic and political implications, should fade in importance as the year progresses.

At the same time price stability is threatened more seriously than at any time in the past year, chiefly in the area of manufactured and semimanufactured products. While more abundant meat supplies should bring lower average food prices in the summer months, and raw material prices as a whole are showing no clear upward trend, numerous producers of manufactured goods are reported to be eager to raise their prices in view of the improved demand situation and to be only waiting for the expected rise in steel prices, following the current wage negotiations, before announcing increases for their own products. Thus the steel negotiations take on even more than usual significance in terms of probable widespread repercussions throughout the economy.

Recent credit developments also support this view of an increasingly dangerous inflation potential. I am thinking of the recent emergence of vigorous and pervasive loan demand all over the country in almost all major categories--business loans, security loans, consumer loans, and real estate loans. The money supply itself has not grown unduly, particularly in relation to the rapid expansion of gross national product since last year. On the other hand, nonbank liquidity as a whole, including short-term Government holdings and other money substitutes, has increased much more rapidly--in fact somewhat faster than gross national product. Another disturbing factor is, of course, the continued exuberance of the stock market, together with the persistent upward trend of total credit used for purchasing or carrying stocks.

In considering how to meet these problems, we cannot lose sight of the Treasury's remaining financing program over the rest of 1959, which will involve cash offerings of at least $12 billion, and perhaps several billion dollars more, besides a number of sizeable refundings. We must have in mind the need for preventing the cash offerings from adding unduly to the money supply, as well as the influence of interest rate changes on the ease or difficulty of carrying through this financing. Incidentally, it seems probable that growing business needs, together with these steady Treasury demands, may make it increasingly difficult to place most of the new Treasury issues outside of the banks--although the high level of corporate profits and corporate liquidity argue for a gradual rather than a sudden change in this respect. When to these factors is added consideration of new developments relating to the United States' balance of international payments and the vital need of maintaining our costs and prices on a competitive basis with those of the other leading industrial countries, the present situation stands out as a clearly crucial one. Mr. Marget's statement has presented the issues in excellent clarity, and I agree fully with all he has said. The major question before us, as a nation, is whether we can restrain inflationary tendencies and enjoy a considerable period of sound and sustainable growth or whether we shall soon dissipate the benefits of the recovery through a resurgence of inflationary forces.

In the light of these threats to our economy, I am convinced that the time has come for a decisive signal of the Federal Reserve System's determination to do its part to check inflationary trends. The discount rate is of course the most obvious instrument for giving such a signal. In a sense it is unfortunate that the commercial banks "stole our thunder" by raising the prime rate by 1/2 per cent ten days ago, for it is now generally assumed that the Federal Reserve will follow promptly with a 1/2 per cent rise in the discount rate. A 1/2 per cent rise will therefore be a relatively weak signal for the more sophisticated observers, although it may seem more dramatic to the general public. It seems to me that a prompt increase of 1/2 per cent is the minimum action called for. In my judgment our directors would be willing to vote such an increase this week.

I believe a very good case can be made for a larger increase if we are to give a really clear signal. Also, I have in mind the fact that we shall not have many opportunities for further moves later this year (a period of about a month, from mid-August to mid-September, appears to be the only other promising occasion). In view of the current level of the discount rate and the gravity of the issues involved, I would be reluctant to see changes measured in quarters of one per cent. If a change of more than 1/2 per cent is appropriate, the desirable amount of increase would seem to be 1 per cent. A decisively higher rate might conceivably encourage a prompt upward adjustment in market interest rates to a plateau that could be maintained and that would encourage a growing belief that rates were about as high as they were going to go for some time. This could of course stimulate the flow of investment funds into fixed income obligations and could prove very helpful to the Treasury's program.

On the other hand, I confess I have serious misgivings about the wisdom of a 1 per cent increase if we are to make the move without the enthusiastic endorsement of other arms of the Government whose cooperation is essential in any effective attack on inflationary threats. A 1 per cent increase would be highly unusual and dramatic, suggesting to the public the existence of an extremely urgent problem--and if, in spite of such a move, a clearly inflationary settlement should be made in the steel industry, our action might appear capricious and futile as an anti-inflationary move and might at the same time subject us to severe criticism for causing the Treasury unnecessary hardships, particularly if the Treasury had indicated any lack of enthusiasm on the change. Thus there would be a real risk of our being discredited in the public eye, with an intensification of the political risks to which the System is always subject. We must also face the additional risk that a sharp increase in the discount rate might cause market rates of interest to advance to levels that could prove to be inappropriately high in relation to the present stage of the business cycle.

For my own part, I would like very much to see explored the possibility of our obtaining the active backing of the Treasury, at the very least, for a decisive rate increase, and preferably the issuance of a public statement of the Treasury's determination to work within its area of responsibility to achieve not merely a balanced budget but a budget surplus in the coming fiscal year. Our own move would be sufficiently decisive to warrant, at the same time, a public statement of intent by the Chairman. And finally, I would hope that there could be a simultaneous re-affirmation by the White House of the vital need for non-inflationary settlement of all pending wage issues. Perhaps this is too much to expect, but I think the general subject well worth exploring. If there is a chance of moving on this broader front, I would be agreeable to holding up my recommendation to our directors until the first week in June, in order to provide ample opportunity for a full-scale effort. I would hope, though, that it might prove possible to do everything

> this week, and that all Reserve Banks which wish to take action on the rate could do so as nearly as feasible on the same day, in order to get the maximum impact from any System move.
>
> As for open market policy, it would be my suggestion that we move moderately, but not intensively, in the direction of greater restraint, being guided somewhat by the impact of the discount rate move itself. I think it unnecessary to define the objective in terms of a figure for net borrowed reserves, but would merely instruct the Manager to pursue tactics which would assure an atmosphere of firm restraint.
>
> I believe the time has come to recognize in our directive the very substantial improvement in the economy and the growth of inflationary tendencies since adoption of the present wording. Our suggestion for clause (b), which has already been submitted in writing to the Secretary, is as follows: "to restricting the expansion of money and credit with a view to restraining inflationary tendencies and thereby promoting sustainable growth."

Mr. Erickson said that business in the First District continued to improve. Although, as he had reported before, the pace of recovery in that area was not as rapid as for the nation as a whole, production and employment were up in April and the most recent survey of New England purchasing agents showed a rise in the percentage expecting increased production. In the four States for which April statistics were available, there had been a greater than seasonal improvement in employment, with construction and trade the most important factors. Three labor areas had now shown improvement in their classification; at present there were no labor areas with unemployment of 12 per cent or above, four areas with 9 to 12 per cent unemployment, and eight areas with 6 to 9 per cent unemployment. Of the twelve areas having 6 per cent or more unemployment, four were textile centers that had been areas of labor distress for a number of years. The April survey of mutual savings banks revealed for the first time in some period a smaller percentage increase in deposits than reported for the previous month.

As to the discount rate, Mr. Erickson said that he had given consideration to the possibility of an increase of more than 1/2 per cent. However, after weighing all factors, he was inclined to feel that a 1/2 per cent adjustment would be appropriate. The directive should be changed, and his suggestion was among those listed in the memorandum distributed by the Secretary of the Committee under date of May 25, 1959. Any directive, he felt, should contain the word "inflationary" as well as a reference to sustainable economic growth. Open market policy should provide further restraint. While he hesitated to suggest any particular figure of net borrowed reserves, he would say that if $250 million denoted the measure of restraint to date, an increase to a range of $300-$350 million was about what should be accomplished.

Mr. Erickson commented that he was intrigued by the suggestions of Mr. Hayes regarding the possibility of arranging for statements by various parties within the Government in conjunction with a decisive discount rate increase. If all the things mentioned by Mr. Hayes could be worked out, the net result might be salutary. However, if those things were not done, he could see the possibility of danger to the Treasury's position.

Mr. Irons stated that the Eleventh District was following the national pattern of a strengthening, rising level of activity, and broad recovery. Production, distribution, and employment all moved upward during April and thus far into May, and a stronger confidence had developed among businessmen and the public generally that the country was now in a period of prosperity. The principal question at this point concerned the level to which activity might move up. A month or two ago businessmen had some reservations about such factors as the level of unemployment, the possibility of a steel strike, and the level of oil output, but such reservations had now been overbalanced by confidence and optimism in the level and trend of current economic activity.

Turning to financial developments, Mr. Irons said that loan demand was strong, especially in business, consumer, and real estate loans, and the strength of demand was increasing week by week. However, borrowings from the Reserve Bank thus far had not been too large except over the May 15 week end. Whenever Federal funds were available at a rate comparable to the discount rate, district banks appeared to prefer to purchase such funds, possibly building their record against the day when Federal funds were not available. A check of free reserves of country banks for the months of January and April showed a daily average of $47 million in January and $45 million in April, and in no day during the latter month did country banks show less than substantial free reserves. In contrast, the situation was getting to be quite firm in the reserve cities.

Mr. Irons expressed the opinion that a discount rate of 3-1/2 per cent would be in order, although some arguments could be made for moving to a higher rate. If the latter alternative were decided upon, however, he felt it might be desirable to proceed along the lines Mr. Hayes had suggested, including consultation with the Treasury. In support of the 3-1/2 per cent level he stated that in July and August there might be some evidence of the usual summer doldrums, and also there was the uncertainty with regard to a possible steel strike. For these reasons he was inclined to feel that a discount rate of 3-1/2 per cent would be appropriate at this time, thus leaving the System in a position to consider a further increase in the early fall. The next regular meeting of the Dallas directors was not scheduled until June 11, so that earlier action on the discount rate would require a special meeting.

As to the directive, Mr. Irons noted that his suggestion for clause (b), included on the memorandum distributed by the Secretary, was similar to that suggested by the New York Bank.

With regard to open market operations, Mr. Irons said he felt there should be further restraint upon the availability of credit and that any deviations clearly and certainly should be on the side of tightening. He would like to see a degree of restraint such as to assure a short-term rate structure in which Federal funds and Treasury bills would, so far as possible, press firmly on the discount rate, whatever that rate might be.

Mr. Mangels reported that Twelfth District business conditions continued to reflect an increase in activity, although the rate of increase in April and the early part of May was not as rapid as in March. This was due in part to weather conditions in the Pacific Northwest, which exerted an effect on lumbering and construction. Recent information, however, showed lumber orders and production up, with inventories down. While there had been some cutback in employment at aircraft factories in the Northwest, this was offset by increases in employment at electronic and ordnance firms. Unemployment in the Pacific Coast States stood at 4.5 per cent in April compared with 4.6 per cent in March and 7 per cent in April 1958.

Mr. Mangels said that retail sales, including auto sales, continued to show improvement although dealers reportedly were being loaded up with new cars. It appeared that the 1959 fruit crop would be heavy, especially in California, and the canning industry was expecting a large pack.

On the financial side, Mr. Mangels stated that district banks were experiencing a strong demand for loans, with some loans apparently being made to finance the accumulation of steel inventories. There was also reported to be a demand from small business firms for loans ranging from $100,000 to $1 million which were in essence capital loans on a long-term basis. Borrowings from the Reserve Bank were rather spotty, ranging in the past couple of weeks from a high of around $150 million to a low of $15 million. The large district banks continued to be net purchasers of Federal funds and it was estimated that net purchases might be around $800 to $900 million this week. Deposits were beginning to show the normal seasonal decline but savings deposits were up $98 million over the past three weeks, about the same rate of increase as for the corresponding period in 1958.

Mr. Mangels suggested that the recent increase in the prime loan rate and the general stiffening of other interest rates should provide a modest degree of restraint in the market, while the improvement in business conditions and the outlook for Treasury demands should also result in some tightening. However, he felt that the System should exercise a little more restraint than it had to date. He had in mind net borrowed reserves in a range from $250 to $300 million, with the thought that the figure might go higher depending upon conditions in the market. In essence, the System should put on the brakes but not so tightly as to prevent all further increase in activity.

Mr. Mangels indicated that he would favor an increase of 1/2 per cent in the discount rate at this time. The San Francisco Bank was in a position where it probably would follow rather than lead, because the next meeting of directors was not scheduled until the tenth of June. Therefore, while there would be an executive committee meeting tomorrow, the Bank probably would be close to the end of the line unless a special meeting was called.

With regard to clause (b) of the directive, Mr. Mangels noted that he had suggested to the Secretary "to fostering conditions in the money market conducive to sustainable economic growth, recognizing the necessity, toward this end, of avoiding excessive credit expansion." On second thought, he said, he would like to change the word "fostering" to "maintaining" and the word "avoiding" to "discouraging."

In further comments, Mr. Mangels summarized the results of a questionnaire distributed by a West Coast newspaper among members of the California Bankers Association. The replies indicated, among other things, a preponderance of opinion that new records would be set in gross national product and industrial output during the fourth quarter of 1959 and that the trend of consumer prices in the next twelve months would be higher.

Mr. Deming stated that Ninth District economic activity was expanding at a rate roughly parallel to, but a shade lower in level than, that for the nation as a whole. The outlook was somewhat clouded because of uncertain crop prospects and the current lower drift of farm prices. The district-wide drought had been broken by widespread, but not adequate, rains. The soil moisture situation thus remained spotty, with topsoil moisture good but subsoil moisture inadequate. Lake Superior ports shipped 3 million tons of iron ore in April compared with less than 100,000 tons last April. While this marked a sharp improvement over last year, it was not particularly favorable relative to previous periods of high activity, reflecting some basic shifts in iron ore procurement. Mining employment was up about 15 per cent from a year ago.

Turning to System policy, Mr. Deming said that certain points impressed him. A number of financial measuring sticks--the money supply, the volume of bank borrowing, the three-month bill rate, and the growth in bank lending--seemed to indicate that credit policy had not been unduly restrictive. Yet, as some had pointed out, several measures of bank liquidity might indicate the possibility of cumulative tightening and point to a banking situation that could be quite sensitive to further restrictive action. In the Ninth District, loan-deposit ratios in April were exactly the same as in April 1957 and had been rising this year more steadily and rapidly than they did two years ago. Ratios of Government securities to deposits also were about the same as two years ago, but ratios of short securities to deposits were lower and those of long terms to deposits were significantly higher. Banks examined in February and March this year showed bond account depreciation equivalent to 10 per cent of capital accounts, against 7 per cent at a comparable group of banks in 1957. Other evidence of some tightness might be seen in the rise in the velocity rate, in the volume and number of country bank borrowings, in interest rates other than on three-month bills, and in the ratio of the money supply to gross national product.

Mr. Deming said he found it difficult to argue for any appreciable increase in restrictiveness via open market operations at this time, a feeling compounded by the long-run Treasury financing problem. At the same time he felt that the discount rate might be advanced, not so much as a directly restrictive move as a signal that the System did not propose to acquiesce meekly in a further erosion of the dollar, a move to bring the rate into better alignment with most short-term money market rates, and a matter of timing now that the System had a free period. He had not thought in terms of as much as 1 per cent; rather he had thought that a change of 1/2 or 3/4 per cent would do the job. He saw no need to hurry the action by calling special meetings of directors, and the Minneapolis Bank would not want to take the lead in this movement. However, it would be possible to act in Minneapolis this Thursday, next Thursday, or the following Friday.

As to the directive, Mr. Deming said he would favor an amendment of Mr. Allen's suggestion (shown in the Secretary's memorandum of May 25) by inserting "restraining inflationary tendencies and" before "maintaining conditions in the financial markets conducive to sustainable economic growth and stability."

Mr. Allen said that although he had been back in the United States only a few days, it was quite apparent that the Seventh District was sharing in the rapid improvement in business conditions noted throughout the country. There was a growing expectation that sales of domestically produced autos might reach 6.5 million units in 1959, including 500,000 of exports, while truck production and sales might reach 1.2 million. In both cases these figures would be the largest since 1955. Employment in durable goods manufacturing had continued to rise; increases over last year in March were 4 per cent for the United States, 2 per cent for Illinois, 4 per cent for Wisconsin, 8 per cent for Iowa, 10 per cent for Indiana, and 11 per cent for Michigan. As a result, mid-May figures on labor classifications released last week showed that four district cities, including Chicago, had been classified upward. While housing starts were about 40 per cent higher for the United States in the first four months of this year, permits for residential construction issued in Chicago and Detroit were up about 50 per cent for this period, although this reflected in part the greater reductions noted in these areas last year. Farm real estate prices appeared to be rising less rapidly in the central Corn Belt than in the nation, reflecting, no doubt, the lower prices for hogs and prospects for a further decline. Farm loans, both real estate and nonreal estate, continued to increase in the Seventh District. It now appeared that farmers would increase corn acreage even more than the 12 per cent indicated in the March survey of planting intentions.

Business loans, Mr. Allen said, now appeared to be gaining strength steadily. District weekly reporting banks accounted for $66 million of the $350 million growth in the nationwide weekly reporting member bank total in the first two weeks of May. This was the largest two-week growth, except during tax periods, that district banks had experienced since early in 1956, and in Chicago another increase, though only $5 million, was reported in the week just ended. Most of the gains reflected increased borrowing by manufacturing concerns and sales finance companies. Savings deposits at commercial banks in 32 metropolitan areas in the Seventh District increased by $63 million in the first quarter of 1958, but declined by $10 million in the first quarter of 1959, while accounts at savings and loan associations in five metropolitan areas, which showed an increase of $168 million for the first quarter of 1958, increased $176 million in the first quarter of 1959. Reflecting the pick-up in employment and increases on the rates paid on savings accounts, savings had increased substantially in Michigan cities; offsetting this, savings declined somewhat in Illinois and Wisconsin cities.

Mr. Allen stated that the Chicago directors, who meet regularly every two weeks, were scheduled to meet this coming

Thursday. Last week there was some feeling on the part of one director that a special meeting should be held to consider the discount rate, and there seemed to be no doubt that the directors were ready to move on the rate. Mr. Allen said he found Mr. Hayes' comments most interesting, and persuasive to a degree. On balance, however, he still felt that a rate of 3-1/2 per cent would be sufficient at this time. He would like to see more restraint achieved through open market operations. To the extent that the use of net borrowed reserve figures was indicative, he would be inclined to agree with Mr. Erickson that a range of $300 to $350 million would be appropriate.

Mr. Leedy reported that Tenth District conditions largely followed the national pattern. Prospects for agriculture were not quite as favorable this year as last year, but there seemed to be no abatement in the enthusiasm for farm machinery, with reports indicating that purchases thus far this year were higher than during the same period a year ago. Unemployment continued to recede; there had been some substantial employment increases, and there were further prospective increases, in the area around Kansas City due to labor force additions in the auto assembly plants and in one of the principal plants doing defense work. Retail sales were running at a level about 11 per cent over a year ago.

Mr. Leedy went on to say that the demand for credit, which had been strong since the first of the year, was now increasing, with the pressure felt in most loan categories, including consumer, real estate, and business loans. This demand was being reflected at the discount window. As he had reported before, borrowings at the Kansas City Bank were out of proportion to System totals, and during the past three weeks they had been running as high as 16 per cent of the total.

With respect to System policy, Mr. Leedy said it seemed to him that except for the Treasury situation the course would be clear; that is, to move progressively further in the way of attempting to apply restraint. He wished to associate himself completely with what Mr. Hayes had said with respect to policy. Personally, he had questioned whether it would be feasible to increase the discount rate by a full percentage point, but he noted that on eight different occasions in the past an increase of 1 per cent or more had been made. As he saw it, anything less than 3/4 per cent would amount to doing nothing at all as far as any signal from the System was concerned, for a 1/2 per cent increase had been completely discounted. The market reaction suggested that the increase of like amount in the prime rate also had been discounted. Therefore, if the Treasury was willing to go along, he felt that the thinking should not be in terms of an increase of less than 3/4 per cent. He would subscribe to the thought of exploring a 1 per cent increase in the hope that such an adjustment might in the longer run be more effective from the standpoint of both the System and the Treasury. As to the directive, he rather liked the New York suggestion although he would go along with the suggestions submitted by Mr. Irons or Mr. Leach. They all referred to restraint of inflationary pressures, which he thought should be included in the wording of any directive that might be adopted.

As to open market operations, Mr. Leedy said he would be inclined to move further in the direction of restraint. He noted that the action taken on the discount rate might have some influence on how far open market operations should go. As to timing, if the move on the discount rate was only 1/2 per cent, some delay would not appear to be of great consequence for the move had been generally expected and discounted. However, he hoped that the Banks might move in concert to the extent of at least 3/4 per cent, and he felt that, as Mr. Hayes had suggested, it would be desirable to explore an increase of 1 per cent.

Mr. Leach reported that each month brought new evidence of a strong and continuing expansion of economic activity in the Fifth District. Seasonally adjusted nonfarm employment rose in April to continue a virtually uninterrupted year-long rise and manufacturing man-hours rang up yet another healthy increase. In the textile industries, markets continued to improve, production had increased, order backlogs had expanded, and mill inventories were down.

Statistics now confirmed the earlier reports of a good spring furniture market. Bituminous coal output showed a modest gain, and the inventory situation gave promise of further increases. One of the Richmond Bank's directors, in reporting last week on improved conditions in nonresidential construction, commented that architects were now writing letters to contractors to invite their bids on projects, whereas a short time ago contractors were seeking out the jobs. Fewer contractors were now bidding on each job and current bids were higher relative to costs.

Since the first of May, Mr. Leach said, borrowings from the Federal Reserve Bank of Richmond had averaged $62 million a day and the daily average number of banks borrowing was 43. Both figures were substantially larger than those of any other month in the last six years. The use of discount facilities recently was discussed with 15 country member banks that had been borrowing rather continuously. Some had sold or intended to sell securities and two had sold loans, while many said they were experiencing an unexpectedly strong loan demand. Available statistical information likewise pointed to an unusual demand for loans. Since March 4, total loans of weekly reporting banks in the Fifth District had increased 6 per cent, a much higher percentage than in the comparable period of any of the preceding four years. Over half of the recent increase was in business loans, but there were also substantial increases in consumer and real estate loans. The member bank with the largest correspondent business in the district reported increased pressure to participate in loans, while another large member bank had instructed the officers of its State-wide branch network to hold down loans and seek larger deposit balances from borrowers. Other bankers reported that present and prospective pressures had caused them to become more selective in making loans and to request larger balances from loan applicants.

Comments of this kind, heavy borrowings from the Reserve Bank, and depreciation in securities portfolios all led Mr. Leach to think that reserve pressures were increasingly affecting the lending attitudes of officers of member banks. Nevertheless, he felt that inflationary dangers called for further restraint. He had been thinking in terms of an increase in the discount rate to 3-1/2 per cent and still thought that was probably what ought to be done, even though such an increase certainly had been discounted to a large extent. A 1 per cent increase would be a little extreme, and he doubted whether the Treasury would welcome it. In any event, however, he believed the discount rate should be increased before the middle of June. At the Richmond Bank, it would be rather difficult to arrange for action before June 11, which was also the next regularly scheduled meeting date of the directors of several of the Reserve Banks. In his opinion, pressure on reserves should be increased and banks should be forced to borrow some of the additional reserves they would need. He made this comment even though Fifth District banks were already under pressure and the distribution of reserves was such that to speak of $250 or $300 million of net borrowed reserves was equivalent in some respects to speaking of $500 or $600 million in 1957. If the distribution of reserves should stay the same as at present, any large increase in net borrowed reserves would result in a substantial increase in pressure on banks outside of New York and Chicago. The directive should certainly be changed at this meeting, and he would like to include the word "inflation." Aside from that, any one of several of the suggested wordings would be satisfactory to him.

Mr. Mills made substantially the following comments:

> My forebodings have not diminished with respect to the delayed and violent financial and economic reactions that I believe are in the offing when the cumulative pressures inherent in the Federal Reserve System's present monetary and credit policy have their full effect. I take no comfort from the sense of today's discussion, which leans toward a further intensification of the pressure on reserves. As my views on current policy matters have been presented on earlier occasions, they won't be repeated today, but I hope that future economic historians will not have to look back on this period as one in which the Federal Reserve System took alarm and panicked about anticipated events which had not as yet come into palpable and clear perspective.

Mr. Robertson presented a statement substantially as follows:

> We are often unhappy when reports on the economic situation are "mixed." Such reports give us no clear guidance as to policy, and leave us uncertain as to whether the policy of ease or restraint we are following at the time is just right--too much or too little.
>
> We do not have that problem today. I can think of very few occasions when reports on the economic situation and outlook have all pointed so strongly in one direction.

We can be sure that much the same information is being presented to--and considered by--boards of directors, presidents, and senior partners across the length and breadth of the land, but with one difference. Most of the economic presentations made to others include, as an important element, an estimate of what we--the Federal Reserve System--are likely to do in the circumstances. These estimates may vary in detail, but I venture they all sound pretty much the same--that the Federal Reserve will increase restraint as the situation continues to strengthen, and that interest rates will continue to move upward over the weeks and months ahead.

In order for monetary policy to be effective there must be uncertainty in the market place as to the future trend of interest rates. When people are unanimous in expecting interest rates to rise (as they are today), they will hesitate to put funds into interest-bearing securities, and funds will flow excessively into the stock market or into other hedges against inflation. When the general expectation is for rates to move down, the flow will be reversed, resulting in excessive and even speculative demand for fixed-interest securities and a drying up of the flow into equities.

The aim of the Federal Reserve, therefore, should be to foster such a level of interest rates that there can be no certainty whether, over the foreseeable future, interest levels will trend up, trend down, or remain relatively stationary.

Such desirable uncertainty does not exist today. The nearly universal expectation is that rates will move upward from their present levels as the boom progresses. Nor will there be uncertainty if we pursue a cautious policy of tightening reserve positions gradually and follow the upward trend of short-term rates with modest changes in the discount rate. This will confirm everyone's short-term expectations, and reinforce their longer-term expectation of rising rates. There is only one thing we can do to introduce into the money market the uncertainty that is essential to the effective functioning of a market economy. We must move quickly and unhesitatingly to a rate which is sufficiently high to leave reasonable men uncertain as to whether the future course of rates will be up or down.

I do not need to remind you that such a course of action has been pursued by central banks in the past with salutary results--most resently by the Bank of England. My own judgment would be that it would take at least a 1 per cent increase in the discount rate--this would raise it to the highest level in 30 years--to put us "on top" of the situation. Of course,

> this increase should be accompanied by an appropriate policy of more stringent restraint with respect to reserve availability.
>
> Decisive action at this time may temporarily inconvenience the Treasury in its financing operations, but in the long run it would ease its problem by enlarging the volume of funds flowing into Government securities. A forthright policy designed to place the world on notice that the Federal Reserve stands adamantly opposed to inflation, which will result in a cheapening of the dollar, will inevitably facilitate the financing of the Government and lower the long-run cost of servicing the national debt.

In further comments, Mr. Robertson said that his view regarding what should be done in the way of open market operations would depend to some extent on whether decisive action was taken on the discount rate. If the action was to increase the rate by only 1/2 per cent, open market policy should be moving restrictively to between $400 and $500 million of net borrowed reserves. If, on the other hand, decisive action were taken on the discount rate, an increase in net borrowed reserves to between $300 and $350 million, or perhaps $400 million, would appear to be as much as necessary. As to the directive, Mr. Robertson said he could do no better than accept the language suggested by Mr. Allen, as amended by Mr. Deming, or the wording suggested by Mr. Bopp as presented in the Secretary's memorandum. All of the suggestions submitted were pretty much in line and it was difficult to choose among them, but personally he would prefer one of the two he had mentioned.

With respect to the comments made by Mr. Hayes, Mr. Robertson felt that it would be unwise for the System to seek to have the executive branch of the Government "hold its hand." He was firmly opposed to an open-mouth policy either on the part of the System or the executive branch, for in the long run he believed it did little good. The System should not complain about what others did unless it had done everything within its power to meet the issues at hand. Therefore, while he would consult with the Treasury, he would not want System action to depend on action taken by the President or the Treasury. Instead, it was incumbent upon the System to take firm action.

Mr. Shepardson stated that during the last three weeks he had attended meetings in New Orleans, St. Louis, and Chicago where he had an opportunity to discuss the agricultural situation with quite a range of people. The comment was made rather frequently that prospects were not quite as bright as last year, and there was some feeling of uncertainty in a number of places. However, it is often said that "the crop is lost three times before making a record harvest." Actually, the prospect was for a large cotton crop, and the wheat crop, while it would not be as large as last year, nevertheless would still add to the wheat surplus. Herds of cattle were still being expanded and calf prices were up. The cattle situation appeared to be heading for severe trouble but cattlemen apparently hoped there were still a couple of good years ahead. In 46 States, farm land prices were reported to be rising, and the level was now 8 per cent higher than a year ago, which was hard to reconcile with talk of an agricultural depression and the pressure was placed on farmers. As a matter of fact, commercial farms were not losing money at present.

Mr. Shepardson expressed agreement with what Mr. Robertson had said, adding that he did not recall any time since he became a member of the Board of Governors when such a generally favorable outlook for business expansion existed. He was also much impressed by the comments of Mr. Marget. The balance-of-payments situation was a matter that had been of concern to him for some time, and the current figures seemed to offer clear support for what many people had feared with respect to the position of the United States in international trade. All of these things, Mr. Shepardson said, pointed to the need for definite and positive action at this time. While he had expressed himself in similar vein at the last Committee meeting, it was not possible to do much at that time because of the Treasury's financing. Now, however, he felt that the System should take definite action. On the discount rate, it seemed desirable to make enough of a move clearly to indicate the position of the System; System actions should not lag as they did in 1956. Therefore, he would definitely favor a discount rate increase of 1 per cent. He would also favor some increase in restraint on reserves, and he agreed with Mr. Robertson that a less decisive rate action would call for more vigorous restraint through open market operations. Personally, he would favor giving a clear signal through the discount rate and then making a moderate move in the direction of further restraint on reserves.

As to the directive, Mr. Shepardson said that he liked Mr. Bopp's suggestion for clause (b) with one modification. Instead of referring to "inflationary developments," he would prefer "inflationary credit expansion" as indicating more particularly the System's sphere of responsibility. He would like to include the phrase suggested by Mr. Bopp with respect to expanding employment opportunities because it seemed appropriate for the System to show its interest in that area. Thus the directive would read: "to restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities."

Mr. King made substantially the following comments:

> There are increasing signs that the present monetary and credit policy is having a restrictive effect on the economy. Present signs of tightness in the mortgage money market suggest that the current level of activity in construction will diminish during the last half of the year. Recent postponement of issuance of some securities--as an example, the $50 million New York Turnpike Bonds--because of interest rates indicates that the credit and monetary policy of the last several months is having a retarding effect on expansion along this line.
>
> These indications do raise the possibility that the cumulative effect of the present policy might ultimately constitute more restriction than has been obvious up to this time. However, there are so many other factors indicating a discount rate increase is appropriate that

> I would vote to approve an increase of 1/2 per cent if requested by a majority of the Reserve Banks.
>
> Concerning open market operations, I would agree to additional restraint but would leave the amount and the words of the directive to the other members of the Committee. I agree with Messrs. Robertson and Shepardson that if only a 1/2 per cent discount rate increase is effected, somewhat greater restraint in open market operations would be desirable.

Mr. Fulton reported that Fourth District steel mills were working practically at capacity, with increased orders from certain customers indicating that the inventories those customers had hoped to accumulate in anticipation of a possible steel strike were being cut into quite rapidly. At the same time, with the opening of the St. Lawrence Seaway quite a volume of foreign steel was being unloaded at the docks in Cleveland. It was announced recently, however, that one Fourth District steel company intended to spend around $300 million in an expansion program over the next several years. The foundries, in bad shape a relatively short time ago, now were working practically full time, and there were demands that deliveries be advanced. The railroads were now buying rather extensively for the first time in some period, and more orders were coming into the machine tool industry. While the orders were not in great volume, some of them were for expensive machines that would take a long time to turn out. Thus, in the whole manufacturing process there was quite an upturn, seemingly a sustained upturn. By the same token, unemployment had been going down and additional cities had been removed from the excessive unemployment category. The remaining cities were largely in heavy industry or coal regions.

Mr. Fulton said that district department store sales were up from a year ago but that the agricultural outlook was not particularly good. The wheat crop apparently would be the worst since 1930 and this would have its effect upon farm banks. Some of those banks had loans carried over from last year, and in view of the poor wheat and hay prospects they apparently would have to carry over more this year. Therefore, they appeared likely to come to the discount window. Thus far, however, district banks had not been borrowing heavily, which might be due in part to the fact that the Reserve Bank had held conversations with some of the more frequent customers. Business loan demand was fairly strong but not excessive, while in mortgage loans there had been a rather heavy demand. However, it continued to be the expectation that in the second half of the year there would be a substantial decline in the amount of housing to be built and consequently the financing of it.

With respect to the discount rate, Mr. Fulton said he had mixed feelings, not as to the desirability of a rate change but as to the timing of it. One of the reasons for his uncertainty was the probability of a steel strike which, if it occurred and continued for some time, would affect the employment situation in the

Fourth District and production outside the steel industry. He was inclined to feel that a decisive rate change at this time might prejudge the effect of the steel settlement, and at present there was no definite indication whether the settlement would or would not be inflationary. Accordingly, his preference would be to wait until a clearer indication was available and then, if it seemed appropriate, to make a change in the discount rate that would be more than merely an adjustment to the market. This would constitute the System's signal that there had been an inflationary wage increase and that the System intended to do whatever it could by way of offset. It would be a clear and definite signal of System intentions, both from the standpoint of timing and the extent of the increase.

Mr. Fulton noted that his suggested language for the directive was set forth in the memorandum from the Secretary. He would be willing to go along with the language suggested by Mr. Bopp, modified in the manner suggested by Mr. Shepardson.

Mr. Bopp reported that Third District developments were similar to those described for the nation as a whole except that, as usual, the pace of the district was a little slower. Even in details, however, the pattern of district developments was close to the national picture.

Mr. Bopp said that although he could see some virtue in a discount rate increase of 1 per cent, his conclusion was that an increase of 1/2 per cent would be appropriate. He added that he doubted seriously whether the Philadelphia directors would be inclined to go along with a full 1 per cent adjustment. The next regular directors' meeting was scheduled for June 4 and it might be difficult to assemble the directors for a meeting this Thursday. In any event, those who did come probably would hesitate to move on the discount rate in the absence of the other directors.

Mr. Bopp felt it was of some importance that the directive recognize the interest of the System in expanding employment opportunities, although his thoughts along this line might reflect to some extent conditions in the Third District. With that proviso, he would consider any of the suggestions listed in the Secretary's memorandum appropriate. In his opinion, open market operations should be somewhat more restrictive, with the extent of restrictiveness depending on the effect of a change in the discount rate.

Mr. Bryan commented that he had heretofore reported on the strength of the economy of the Sixth District and the extent of change. Statistics available since the preceding Committee meeting all pointed to developments of the kind Mr. Young had outlined in presenting the national picture. District insured unemployment figures were down dramatically as compared with 1958 and apparently would soon drop below the level of 1957. With reference to a comment made by Mr. Shepardson, Mr. Bryan said he could see no explanation except speculation for the increase in land prices in the Sixth District. Furthermore, he was not making reference to Florida and the other coastal resort areas, where there was obviously a vast speculation in land, but to other essentially farming areas.

As to the discount rate, Mr. Bryan said he had not given particular consideration prior to this meeting to a 1 per cent increase but felt that the comments made by Messrs. Hayes and Robertson deserved a great deal of thought. Should there be an increase of 1 per cent, he agreed with Mr. Robertson that it should be possible to be less restraining by way of open market operations than the Committee would have to be if the discount rate increase were only 1/2 per cent. The directive undoubtedly should be changed, and several of the suggestions with respect to clause (b) would be agreeable to him. On the whole, he would prefer the language suggested by Mr. Bopp with the modification suggested by Mr. Shepardson. As an alternative, he would favor the suggestion of Mr. Irons with the addition of Mr. Bopp's phrase about expanding employment opportunities, a reference that he thought it would be well to include in the directive at this time.

In response to a question from the Chair, Mr. Freutel said that he had no comment.

Mr. Szymczak said that he felt the language for the directive submitted by Mr. Bopp, with the change suggested by Mr. Shepardson, would constitute a proper expression of Committee policy at this time. As to the discount rate, he would favor a change now and felt on balance that it would be better to increase the rate by 1/2 per cent at this time and take another look later. In open market operations, he would move in the direction of net borrowed reserves in a range between $300 and $350 million.

At Mr. Balderston's request, there were distributed copies of a chart prepared by Mr. Keir showing the actual timing of Treasury financings thus far in 1959 and the probable timing of such financings during the remainder of the calendar year. This chart also showed periods in which it might be assumed that the Committee would be maintaining an even keel, the presumption being that the even keel periods would run from one week prior to the announcement of a Treasury financing to one week following the payment or settlement date.

Mr. Balderston stated that, as indicated by the chart, the System was now entering one of the few periods during the remainder of the year when it could take vigorous action without creating added difficulties for the Treasury. However, it must be borne in mind that in the forthcoming period the Treasury would probably have some delicate negotiations regarding the debt limit, which would involve discussions in the Congress regarding interest rates and their impact upon the economy and social problems.

Mr. Balderston went on to say that his greatest concern had to do with what he felt to be an excessive increase in the money supply since January 28. The increase in the active money supply of over $2.5 billion had stemmed from a rapid growth in loan expansion and had been accompanied, at least until the past three weeks, by an increase in time deposits. In a period of ebullience like the present it was his feeling that money substitutes could not be disregarded and must be taken into account in the Committee's deliberations. He also noted that deposit turnover outside New York City had risen 8 per cent from a year ago and was now at a rate of 24.5 annually. Further, the ratio of commercial bank loans to deposits was now nearly 51 per cent, and this was only 13 months after the turnaround of the economy in April 1958. This compared with a ratio at the comparable period in 1955 of only 44 per cent. The inference he drew was that the banks were not only likely to attempt to borrow money heavily at the discount window but might develop to be increasingly complacent about such borrowings. He made that comment because the ratio of loans to deposits was high for this stage of the recovery and because he suspected the banks had made term loans or commitments to a point where they now had less headroom to meet loan demand for the accumulation of inventories or for seasonal purposes. This would mean trouble ahead in the administration of the discount window from the standpoint of maintaining a delicate balance between sufficient restraint on the use of the bank of last resort and avoidance of rumors that credit was not available.

With respect to the directive, Mr. Balderston said that he would favor Mr. Bopp's language as modified by Mr. Shepardson's suggestion. On the discount rate, he would prefer an increase of 1/2 per cent, but he could agree to an increase of 3/4 per cent. In any event, he differed from some of those who had spoken in that he would increase the level of net borrowed reserves to approximately $500 million with all deliberate haste. He would let natural forces in the market operate to produce such a result. More specifically, he would propose to move to $350 to $500 million of net borrowed reserves in a week and to $500 million in two weeks. If the discount rate were not increased a full percentage point, he felt that any net borrowed reserve target of less than $500 million would cause a repetition of the mistakes of early 1956. In short, he did not believe that the System had its foot on the brake hard enough. As between a discount rate change of dramatic force and one less dramatic, which would perhaps create less trouble for the Treasury in its negotiations and would appear more on the financial pages than the front page, he thought that he would favor the second of those alternatives at this juncture. He would move in accordance with normal practices and tighten the degree of restraint just as rapidly as possible without attempting to be so dramatic as to indicate fear of the future or to indicate that the System knew something the country did not know. The country was aware that the money supply had expanded rapidly and would expect the System to redress the balance. In summary, he had the feeling that the markets would not be shocked unduly if the System increased negative free reserves as fast as possible in such a manner as not to incite fear.

Chairman Martin said that, in his opinion and, he believed, in the opinion of the majority, the manner in which things had been moving clearly indicated that the System had not been as restrictive as it desired to be. However, that was hindsight and now it was necessary to move with the ball. In his view, the uncertainty that would be desirable in the markets should not be injected by Government agencies; it should come from natural forces and normal business questions rather than activities of the Federal Reserve or the Treasury. In his opinion, the System should not be too concerned about the fact that the prime rate went up ahead of the discount rate or that everyone now expected an increase in the discount rate. The current situation did not appear to him comparable to the British situation in 1957 at the time the Bank Rate was raised from 5 per cent to 7 per cent, and he did not think that the System would want to go to the President or to the Treasury to invoke their solicitude at this time, for that would be over-dramatizing a situation that seemed not yet out of hand. In substance, he felt that market conditions should be set up that would produce a higher discount rate and that there had not yet been those conditions. Neither would he want to give foreigners who were enjoying the plight of Americans at the present time any feeling that there was a chance of panic in the United States or that the Government was going all out to preserve the dollar. Instead, the thing to do at the present time was to move in a perfectly normal way.

The Chairman commented that a good many around the table would have liked to move faster at an earlier stage, but in fact this had not been done. At this time the perfectly normal thing, and the thing the market expected, was a change in the discount rate to 3-1/2 per cent. The market, however, apparently did not expect too much tightening of the reserve position. That tightening, he felt, should come before an increase in the discount rate to 4 per cent or 4-1/2 per cent. Open market policy should have some bite in it, and it did not have that bite today. While some might disagree with the money supply figures, by and large it could be said that the money supply had been more than adequate for some time. Now that velocity as well as quantity was beginning to pick up, it seemed perfectly right that pressure should develop through open market operations. He was not sure that he would want to be as drastic as Mr. Balderston and move necessarily to $500 million of net borrowed reserves by a fixed date, but the matter of progression was important. In substance, his thinking ran along the line that the Reserve Banks should move as rapidly as possible to a 3-1/2 per cent discount rate and that at the same time pressure should be exerted on the money market through open market operations. That was the move that seemed to be called for. Before making a dramatic move, he felt that the System must be in a much worse position than it was at present. Furthermore, when everyone was as optimistic as around the table today, he began to worry. By the same token, when comments were as uniformly pessimistic as they had been on a few occasions, he would have liked to buy a few stocks. On neither occasion was the situation probably as open and shut as might appear.

Chairman Martin commented that he had no doubt about the trend of the economy or the current position of strength. The problem of the United States today was one of competition in markets abroad, which was essentially a pricing problem. He had thought a great deal about the possibility of a dramatic move of a signal nature on the part of the System, but he was convinced that the position of the Federal Reserve was clearly known throughout the world. The need was not for a signal but for action. A move to a 4 per cent discount rate at this time without accompanying open market operations would in his judgment accomplish very little and, although he had not discussed the specific point with the Treasury, he was inclined to feel that it would complicate the Treasury's problem greatly. It appeared that by and large the battle on balancing the Federal budget had been won, and the thing that would come under serious and critical scrutiny was the role of interest rates in the economy. A large increase in the discount rate would not help the Treasury's case if it went to the Congress for a change in the permissible interest rate ceiling for its bonds.

At this point Chairman Martin interjected that in view of the nature of the discussion at this meeting each person in the room had a responsibility, which he realized it was unnecessary to emphasize to this group, to be very cautious in not revealing the comments at this meeting or what action might or might not be taken.

The Chairman then said it was the net of his thinking that as rapidly as possible the discount rate should be increased to the level where he thought it ought to be; namely, 3-1/2 per cent. Then, as fast as possible in an orderly way, the Committee should make it clear that it was going to increase the pressure on reserves. He did not know what the actual figure of net borrowed reserves should be, for the color, tone, and feel of the market was involved, but there should be no uncertainty that the Committee was moving in the direction of, to use Mr. Balderston's phrase, $500 million. While it was difficult to make comparisons with past periods because of the differences involved, and while it was difficult to find a satisfactory figure at which to aim, the System should put more pressure on the reserve position of the commercial banks.

The Chairman repeated that the course he had outlined seemed to him the orderly way to proceed. To move along a course such as Mr. Hayes had mentioned would require considerable discussion and several weeks of preparation, and he questioned whether that was called for at the present time. Instead, it seemed preferable to him to proceed in the normal way by moving the discount rate to 3-1/2 per cent and putting more pressure on reserves for the next couple of months. There was likely to be increasing discussion of interest rates and the cost to the Treasury of carrying the public debt. By proceeding in the manner he had suggested, conditions would be established such as to aid the Treasury in obtaining an increase in the ceiling on the rates for its securities, and he was not sure that this could be completely validated today. The Treasury was being validated by the course of events, but perhaps not in terms of the economic position at the present time.

The Chairman reiterated that he had thought a great deal about the possibility of moving the discount rate to 3-3/4 or to 4 per cent. However, with the Treasury in the position under the present law of having to service its obligations within a statutory 4-1/4 per cent limit, he would not want to do anything more than necessary to complicate the Treasury's problem.

With respect to clause (b) of the directive, Chairman Martin expressed the opinion that all of the suggestions listed in the memorandum from the Secretary of the Committee were good. The majority seemed to favor Mr. Bopp's suggestion, as amended by the suggestion of Mr. Shepardson. Therefore, unless someone felt strongly to the contrary he would suggest that the Committee agree on "to restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities."

The Chairman then inquired whether there were any objections to the use of such wording for the directive, and no comments were heard.

Turning to the discount rate, Chairman Martin said he would hope that the majority today clearly felt that it would be desirable to move the rate promptly to 3-1/2 per cent. He inquired whether there was anyone who would oppose such a move, and Mr. Mills responded that he would not favor it.

On the question of moving the discount rate to 3-3/4 per cent or 4 per cent, Chairman Martin said he believed that such a proposal represented a minority position around the table, and there were no comments in response to that statement.

The question of open market operations, the Chairman said, seemed to be the difficult one. He had stated his own position. He did not know whether he would want to specify a target of $500 million of net borrowed reserves at any particular time, but he would want to have operations exert additional pressure as rapidly as that could be done without creating an untenable market condition.

Mr. Szymczak inquired whether net borrowed reserves in a range of $300 to $350 would represent more restraint than had prevailed up to this point, and Mr. Rouse replied in the affirmative. He added, however, that much would depend upon the distribution of reserves.

Mr. Hayes then inquired whether, speaking in terms of the next three weeks, it would satisfy the consensus to instruct the Manager of the Account to move clearly toward a firmer tone and leave the amount of net borrowed reserves somewhat indefinite.

Chairman Martin responded that he would be willing not to set a figure, but that the Committee should have in mind what it was driving at in terms of restraint. The country bank situation had changed in relation to the city bank situation, and there were many other differences, so it was difficult to make a comparison with any previous period.

Mr. Hayes noted that net borrowed reserves had averaged around $250 million in recent weeks, which was higher than most people would have said five weeks ago. However, that range seemed appropriate and it had not done any harm. Similarly, it might be possible to go to $400 million or $500 million without hurting anything. He would not like to have some specific target fixed if it developed that it was possible to go further.

Mr. Shepardson said that he had given much thought to the two approaches; namely, emphasis on the discount rate or emphasis on further pressure in the market. It had seemed to him that possibly there would be some advantage in placing the major emphasis on the discount rate at this point, with a movement in the market to validate the increased rate. At the same time he recognized the value of going the other way; that is, building up the pressure clearly to indicate the necessity of a higher discount rate. He was impressed by Chairman Martin's statement about the Treasury's position. If the procedure was to be along lines such as the Chairman had suggested, he felt the Committee should definitely contemplate a sufficient increase in pressure to exert a real bite without necessarily fixing a specific target. It seemed to him that $500 million of net borrowed reserves might be an appropriate direction and that a range of $300 million to $350 million would fail to accomplish enough to carry out the Chairman's suggestion of putting the bite in the market rather than the discount rate.

Mr. Rouse noted that the tightening would have to be accomplished, to a large extent, in the next two weeks, for the next Treasury financing would be decided upon during the last week of June. Furthermore, in the middle of the preceding week there would be an expansion of float. Hence, he thought the stage ought to be set by the middle of June. Tightening operations actually could be carried out by letting natural factors function in the next two weeks or a little more. If things seemed to be getting too extreme, the matter could be considered, but if the distribution worked out it might be possible to get by all right by doing nothing in the next two weeks.

Chairman Martin commented that if the projections were correct, that would take net borrowed reserves toward $500 million. The course mentioned by Mr. Rouse seemed to him a very desirable way to proceed.

Mr. Thomas commented that there might be quite a lot of pressure around Memorial Day. This year, however, the pressure might be less than usual because the holiday would fall on Saturday. If necessary, the situation could be taken care of by repurchase agreements.

Mr. Rouse agreed that repurchase agreements over the week end should be sufficient.

Mr. Balderston commented that he liked Mr. Rouse's suggestion of allowing natural forces to help the System as much as possible. A move to $300 million or $350 million of net borrowed reserves did not seem to him to be the answer to the problem, and Mr. Rouse's solution seemed an excellent one.

Chairman Martin inquired whether this would meet the consensus as a target for the next few weeks, and there were no comments to the contrary.

There followed some discussion of the dates on which the directors of the respective Reserve Banks might meet for consideration of the discount rate, and it appeared from the comments that as many as four or five of the Banks would be in a position to hold directors' meetings this week.

Mr. Allen then referred to the estimating of the money supply and said he gathered there was quite a bit of feeling that the information now being obtained was not as up-to-date or as reliable as it should be. He suggested that improvement might be effected if country banks, instead of rendering reserve reports every half month, were to report on an every-other-Wednesday basis, which would mean 26 reports a year rather than 24. The Chicago Reserve Bank, he said, was preparing to approach certain larger country banks and ask them to furnish daily figures on reserves on an experimental basis, which would provide information comparable to that now available for central reserve and reserve city banks. Also, it was planned to seek a sample of the smaller country banks.

Mr. Allen said it would be his suggestion that as many Reserve Banks as possible try to do something along the lines that the Chicago Bank proposed, unless there was some feeling on the part of the Board that the reserve computation period ought to be changed at an early date. He went on to say that a number of country banks appeared to be getting restive about Federal Reserve membership and that he rather doubted the advisability of a change in the reserve computation period at this time.

After some discussion in the light of Mr. Allen's comments, Mr. Thomas referred to the technical problems involved in getting current statistics and also in regard to the reserve period that should be used. He noted that the System Research Advisory Committee was meeting this afternoon and said that if the Open Market Committee so desired it would be possible to prepare a memorandum setting forth the problem and perhaps making some suggestions.

It was agreed that it would be desirable for the System Research Advisory Committee to discuss the subject at its meeting this afternoon, and Chairman Martin asked that recommendations be presented to the Board of Governors with a view to considering how further to proceed.

In connection with the current study of the Government securities market, Mr. Young stated that one of the task groups would like to have access to certain factual material contained in the report on experience with present operating procedures which was submitted by the staff committee appointed by the Federal Open Market Committee on May 23, 1956. He noted that the reports resulting from the Government securities market study would come back to the Open Market Committee, as well as the Treasury.

There being no objection, it was understood that the material in question would be made available to the task group referred to by Mr. Young.

With reference to the record of policy actions of the Federal Open Market Committee for 1958, a draft of which had been distributed for comment to the members of the Committee and the Presidents not presently serving on the Committee, Mr. Robertson said it concerned him that the record seemed to indicate almost complete unanimity of views around the table at the respective Committee meetings. Also, he felt that one reading the policy record might wonder what sort of directions were given to the Manager of the System Account. He suggested, therefore, that it might be desirable to have a prefatory note to the policy record which would indicate that there were differing views all through the period covered by the record. Such a preface might also bring out that the Manager of the Account sits with the Open Market Committee and has the benefit of discussion around the table, for which reason it is not essential to pinpoint specific instructions to the Manager.

Mr. Szymczak commented that there were certain dangers in a procedure such as Mr. Robertson had suggested and that it might be desirable for the staff to prepare a draft of prefatory note and submit it to the Committee.

Mr. Robertson agreed, adding that he was interested merely in indicating that what came out of the respective meetings was a general agreement, underlying which there might have been varying viewpoints.

The Chairman then stated that the staff would prepare a draft of prefatory note along the lines Mr. Robertson had suggested and distribute it for comment.

At this point Chairman Martin inquired of Mr. Mills whether he wished to be recorded as opposed to the issuance of a policy directive to the New York Bank in the form he (Chairman Martin) had mentioned earlier during this meeting.

Mr. Mills responded in terms that he took as strong a view as Mr. Robertson regarding the policy record. The policy record showed for every meeting a record vote on the directive to the New York Bank, whereas his view was that instructions given for open market operations reflected a consensus.

Chairman Martin commented that Mr. Mills had raised a real point. He went on to say that whenever any member of the Committee wished to have his views recorded, that should certainly be done.

Mr. Hayes then stated that this discussion suggested the desirability of preparing the policy record entries on a more current basis, and there was general agreement with this comment.

Thereupon, upon motion duly made and seconded, and with Mr. Mills voting "no", it was voted to direct the Federal Reserve Bank of New York until otherwise directed by the Committee:

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities to run off without replacement) for

the System Open Market Account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities, and (c) to the practical administration of the Account; provided that the aggregate amount of securities held in the System Account (including commitments for the purchase or sale of securities for the Account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than $1 billion;

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

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, June 16, 1959, at 10:00 a.m.

The meeting then adjourned.

Winfield W. Riefler
Secretary