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, October 2, 1962, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Bryan
Mr. Deming
Mr. Ellis
Mr. Fulton
Mr. King
Mr. Mills
Mr. Mitchell
Mr. Shepardson

Messrs. Bopp, Scanlon, Clay, and Irons, Alternate Members of the Federal Open Market Committee

Messrs. Wayne and Swan, Presidents of the Federal Reserve Banks of Richmond and San Francisco, respectively

Mr. Young, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hackley, General Counsel
Mr. Noyes, Economist
Messrs. Brandt, Brill, Garvy, Hickman, Holland, Koch, Parsons, and Willis, Associate Economists
Mr. Stone, Manager, System Open Market Account
Mr. Coombs, Special Manager, System Open Market Account

Mr. Cardon, Legislative Counsel, Board of Governors
Mr. Williams, Adviser, Division of Research and Statistics, Board of Governors
Mr. Knipe, Consultant to the Chairman, Board of Governors
Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors

Messrs. Eastburn, Ratchford, Baughman, Jones, and Tow, Vice Presidents of the Federal Reserve Banks of Philadelphia, Richmond, Chicago, St. Louis, and Kansas City, respectively
Mr. Lynn, Assistant Vice President, Federal Reserve Bank of San Francisco
Mr. Cooper, Manager, Securities Department, Federal Reserve Bank of New York
Mr. Griggs, Financial Economist, Federal Reserve Bank of Dallas

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on September 11, 1962, were approved.

Under date of September 18, 1962, there had been sent to each member and alternate member of the Federal Open Market Committee, and to each President not currently a member of the Committee, copies of the report of audit of the System Open Market Account and a report of audit of System foreign currency operations made by the Division of Examinations as at the close of business June 8, 1962, and submitted by Mr. Schaeffer, Chief Federal Reserve Examiner, in accordance with the action of the Federal Open Market Committee at its meeting on June 21, 1939, as reaffirmed most recently at the meeting on March 6, 1962. Copies of the reports have been placed in the files of the Committee.

Chairman Martin inquired whether any of the members of the Committee had comments or questions, and there was no indication to such effect.

Accordingly, the audit reports were noted and accepted without objection.

Before this meeting there had been distributed to the members of the Committee a report on open market operations in United States Government securities covering the period September 11 through September 26, 1962, and a supplementary report covering the period September 27 through October 1, 1962. Copies of both reports have been placed in the files of the Committee.

In supplementation of the written reports, Mr. Stone commented as follows:

The money market during the past three weeks continued to display the generally steady atmosphere that has prevailed for the past two or three months. The effective rate on Federal funds was again at 2-3/4 or 3 per cent on every day of the period. Indeed, on looking back I find that the effective funds rate has been at 2-3/4 or 3 per cent on every day since July 26, and on all except four days since June 11. An abundance of funds continues to be available and to move through the market at those rates, although last Wednesday the supply dried up while demand expanded, and in consequence member bank borrowings rose sharply on that day.

As in earlier periods, there has continued to be strong demand for short-term investments and downward pressure on bill rates despite the moderately firm atmosphere in the Federal funds market. Corporations seem to have come back into the bill market after only a temporary slackening in their buying over the tax date, and reports from the market indicate that a good corporate demand is likely to continue in the period ahead, particularly with the cash inflow to the automobile industry about to accelerate as sales of the new models get under way. Our operations over the next few days will probably put some additional downward pressure on rates, for it appears from current reserve estimates that we may have to inject another $750 million of funds on top of the heavy purchases of recent days.

The long-term market has also continued firm in the past few weeks, nourished by a feeling in the market that the domestic business situation is getting no better. Also reports from the Fund and Bank meetings have suggested to the market that confidence in the dollar may have improved sufficiently so that greater weight might be given to the domestic side in the formulation of policy. This feeling has been further nurtured by market letters that have appeared recently.

The Treasury's announcement that it would offer about $250 million long-term bonds at competitive bidding sometime in the next six months had no impact on prices and rates in the market, but did send banks and dealers into an immediate flurry of activity in efforts to organize bidding syndicates. The Treasury's projected technique has been a prime topic of discussion during the past two weeks, and out of that discussion have emerged a number of significant questions and problems. One of the more important of these problems is the possibility that bidders, for prestige purposes, will seriously overprice the issue--an action that could destroy the new technique in its infancy. Another question raised by the market involves the 4-1/4 per cent statutory interest rate ceiling and whether the Treasury would be prepared to accept a bid priced to provide a yield in excess of 4-1/4 per cent. Still another problem is that of reasonable balance in the strength of the competing syndicates. Finally, the problem that most directly concerns the System is the one outlined in Mr. Keir's memorandum--whether the Committee would undertake its customary even-keel approach, or more or less than that approach, during a financing underwritten by a syndicate.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the open market transactions in Government securities during the period September 11 through October 1, 1962, were approved, ratified, and confirmed.

The economic review at this meeting consisted of a visual-auditory presentation for which Messrs. Garfield, Reynolds, Axilrod, and Altmann of the Board's staff joined the meeting. Copies of the script of the economic review and the related charts have been placed in the files of the Committee.

The introductory portion of the economic review, presented by Mr. Noyes, was as follows:

At the time of the last visual presentation to this Committee, on June 19, many analysts were revising their forecasts of economic activity downward. Current activity, as reflected in industrial production data through May and a GNP estimate for the second quarter, was continuing to rise. For some time, however, the rate of advance had been much less rapid than in the first six months of recovery and appreciably less rapid than rates incorporated in earlier projections. The latest figures available for retail trade, those for April and May, were above earlier levels, but the course of consumer buying over the whole recovery period was widely regarded as erratic and to some extent disappointing.

Moreover, some of the series which often have moved early in cycles were pointing downward. In particular, stock prices had declined dramatically and many analysts were not wholly satisfied that this decline represented merely an overdue reappraisal of values. Concern over balance of payments problems was being intensified by the Canadian dollar crisis.

While it was generally recognized that the recovery and expansion period which began after February 1961 was still young, by usual standards, there was increasing discussion of the possible need for early action to stimulate demand--and specifically concerning a general tax cut.

Against the uncertain expectations of last June, the developments of mid-summer appeared favorable enough so that the idea of an immediate general tax cut did not prevail. Industrial production rose a full point in July to 119, and the unemployment rate was down a little from the 5-1/2 per cent level reported earlier in the year. Retail trade and manufacturers' new orders for durable goods both rose sharply in July. The stock price decline had ended in late June and by mid-August stock prices had recovered nearly 40 per cent of their previous loss.

Altogether, business developments reported for July were almost too good to be true and could hardly have been expected to be followed immediately by further marked gains. Actually, industrial production and retail trade in August showed little change from their advanced July levels. Unemployment rose in August, and a preliminary report just received indicates that it remained at about the same level in September, emphasizing the continuing underutilization of resources. Steel production currently is still under 60 per cent of capacity despite some advance in August and September.

In the stock market, renewed weakness has appeared in the past 10 days and yesterday prices closed 5 per cent below the mid-September level. This recent decline has been from levels nearly a fifth below the high of last December and may reflect in larger degree than before concern over business prospects. For the third quarter, the present estimate of GNP is $557 billion, a modest rise of $5 billion from the second quarter.

There followed sections dealing with balance of payments developments; production, resource use, and prices; demand factors; and financial developments.

The concluding portion of the economic review, presented by Mr. Koch, was as follows:

These more or less quarterly chart show presentations give the staff an opportunity to present a somewhat longer view of economic and financial developments, both at home and abroad, than can be given in our usual tri-weekly reports. Therefore in conclusion today, let us try to summarize some of these longer run developments insofar as they provide background material for current bank credit and monetary decisions.

First, as to domestic business conditions, economic activity, after having surpassed the pre-recession level quickly, has risen more slowly this year, particularly since spring.

Second, for the first time in the postwar period, expansion in activity has not been accompanied at any stage by rising industrial commodity prices. Moreover, wage increases have been much more moderate than in earlier expansions. In world markets, raw material prices have been under downward pressure.

Third, at the present time available resources of both labor and capital are not being utilized as fully as would be possible without creating upward pressure on prices.

Fourth, current business inventory holdings appear modest in relation to sales, and the current rate of inventory accumulation is not high.

Fifth, total business outlays on new plant and equipment are now rising very slowly. Such expenditures continue to be a considerably smaller proportion of the GNP than in the early postwar expansions, when production was closer to capacity.

Sixth, the Government's share of the increase in final demands has been somewhat larger than in the previous period of cyclical expansion for the whole upswing, although Government fiscal action has not had much of a net stimulative effect on the economy in the last two quarters. Tax reductions and additional tax reforms, however, are generally expected next year, possibly early in the year.

Turning to the balance of payments situation, we find that although the over-all deficit has been gradually reduced since 1960, it remains uncomfortably large. In the first nine months of this year, it was at an annual rate of about $1-3/4 billion, and would have been at about a $2-1/2 billion rate if substantial debt prepayments had not been received.

Second, the 1962 deficit has involved a gold loss larger than that of 1961, though smaller than in 1958 or 1960. The amount of gold purchased by foreign countries continues to depend a good deal on which specific countries are gaining reserves as well as on the size of our deficit.

Third, net capital outflows have not been running quite as large so far this year as they were in 1960 and 1961, mainly because there has been no further Japanese short-term borrowing from U. S. commercial banks since March.

Fourth, two encouraging facts for the longer run are that in recent years our price behavior has been more favorable than that in competing industrial countries, and that more ample reserves abroad should permit leading foreign countries to admit U. S. goods more freely and to relax their capital market controls.

Turning to domestic financial developments, there has been a rather sharp expansion in commercial bank credit and total bank deposits thus far this year. This result has represented sharp increases in time, savings, and Government deposits rather than demand deposits. Thus, the narrowly defined money supply has actually declined a little.

Second, the recent posture of monetary policy, coupled with moderate private and Government demands for financing and a large flow of savings, has been reflected in reasonably stable interest rates. Short-term rates are about 1/4 to 1/2 per cent above, and long-term rates about 1/4 per cent below, their levels at the beginning of the year.

Third, increases in private debt have been much more moderate this time than in other cyclical upswings, and consumers and businesses are in a fairly liquid, although certainly not an excessively liquid, position.

Fourth, stock prices are being more realistically appraised, and the events of the past ten days indicate that the reappraisal process is still under way with uncertainties concerning business prospects probably more of a factor this fall than in the spring.

These, it seems to us, are among the most important economic and financial facts to be weighed in reaching monetary policy decisions. To attempt an even more capsule conclusion, domestic activity continues sluggish, while the international balance is improving only slowly. The business situation is again poised at dead center. After earlier pauses, expansion soon set in. This time, with the expansion still young, the next move may again be up, but there appears to be more possibility than before that the country will soon be entering a recessionary period--once again long before the recovery from the last recession has enabled us to realize our potential in terms of manpower and other resource utilization.

Monetary policy continues to be mildly stimulative domestically and mildly restraining to short-term capital flows internationally. The irreducible policy question remains with us: would additional monetary ease stimulate the domestic economy without hampering the balance of payments improvement that is in process? No doubt the gains to be had from further easing of policy would carry with them some hazards. It is also possible that under present circumstances additional stimulation might more appropriately come from fiscal rather than monetary policy. In this connection, the time required to make policy effective is, of course, one consideration; the impact on balance of payment problems is another. Judgments as to the most appropriate monetary policy will depend, as always, on the weighing of many elements in the situation and in the nature of the case must be based on appraisals of prospects by no means certain.

Mr. Hayes presented the following statement of his views on the economic situation and monetary policy:

The domestic business situation, although not greatly changed since our last meeting, is if anything a shade less encouraging. The complete August statistics now available suggest even a mild downward tilt in that month, but it would seem unwise to stress this in view of the widespread downward influence of the August changeover in auto models. September data are too flimsy to establish a trend. As for quarterly data, preliminary third quarter estimates suggest that GNP rose at about the same rate as in the preceding two quarters, but much less rapidly than in the first three quarters of recovery in 1961. Although inventory investment explained much of the slowdown, with final demand behaving rather well, the really striking fact since the 1961 trough is the relative lack of vigor in business fixed investment. The latter is of course importantly associated with the fact that the economy is considerably further from full capacity operations than in the last strong expansion, that of 1954-57, and perhaps also with inadequate profit margins and a feeling of uncertainty among businessmen as to the Government's underlying attitude towards business. Business sentiment has not been helped recently by the persistent weakness in stock prices.

Despite the spate of cheerful press articles and official comments on the balance of payments, it seems to me that our international problems remain as serious as ever. The one encouraging element has been the calm state of the exchange and gold markets prevailing in the past month or so and enhanced by a Bank-Fund meeting that was notably lacking in scare-talk on the dollar's status. On the other hand, much of this favorable psychology rests on the belief that the United States is making steady progress towards a solution of its balance of payments problem--and if the published statistics for the third quarter fail to bear this out, disappointment could lead to a quick turn for the worse in foreign views concerning the dollar. It now looks as if the third quarter deficit may be at an annual rate of about $2.5 billion, and in the absence of special debt prepayments this rate might have been as high as $4 billion. We may be lucky to achieve a full year over-all deficit as low as $2 billion, as compared with $2.5 billion in 1961, and in contrast with various official forecasts for 1962 in the $1 to $1.5 billion range. Thus the improvement in the balance of payments this year seems likely to be pretty modest, despite all of the Government's laudable efforts to reduce various drains on our international payments; and we seem to be still a long way from the announced goal of basic balance by the end of 1963. Higher imports have been the principal factor nullifying our efforts in other areas, but capital outflows--both short and long term--have also been important. I can see reasonable hope that balance will be achieved in time, in view of the contrasting cost trends now apparent here and in Europe; but the grave question is whether confidence in the dollar as a reserve currency can be maintained while balance is gradually being attained. Time may be running out for us.

I don't think recent credit developments are particularly noteworthy. The data for reporting banks in recent weeks seem to bear out the view of many bank lending officers that there is no great strength in loan demand. As for all the figures on money supply and liquidity, and on reserves in relation to guidelines, I believe that they are sufficiently affected by special factors to lend themselves to highly contradictory interpretations and to use in support of almost any monetary policy; but I am impressed by the common-sense argument that bankers in many parts of the country are eagerly seeking to make loans, and that this readiness to lend money is having some appreciable effect on the flow of capital to foreign countries. Several European central bankers have recently commented on such activities of the American banks.

Whether even greater liquidity than the present rather adequate liquidity level would contribute much to further economic expansion, I am inclined to doubt. If there were no restraining international considerations, it might be worth experimenting in this direction in view of the rather soggy domestic outlook, even though I do not believe monetary policy would supply the needed answer. But with the balance of payments problem as serious as I believe it to be, the risks inherent in an easier monetary policy are clearly too great. At the very least we should try to encourage as firm a short-term rate structure as has prevailed in recent weeks, and preferably a little firmer, i.e., with Federal funds at 3 per cent most of the time and with 90-day bill rates well above 2-3/4 per cent. Purchases of intermediate and long-term securities might well be used to the greatest extent practicable in supplying seasonal reserves needed in the coming weeks. Perhaps this is about as far as we can go today in view of the uncertain domestic outlook--but I have an uneasy feeling that our problem will not become easier as the weeks pass. Unfortunately, we shall have "even keel" considerations to deal with from late October through much of November. I see no need to change the directive or to consider a discount rate change for the time being.

It does seem to me that the "box" we find ourselves in is due at least in part to the Government's reluctance to use fiscal policy promptly and flexibly to deal with some of the demonstrated weaknesses in our domestic economy. I realize that it has been a long-standing tradition for the System to be quite reticent on appropriate fiscal policy, but I believe the time has come to abandon that reticence. The interrelationship between monetary and fiscal policy is so close that I don't see how we can avoid such a conclusion; and incidentally I have seen no evidence of great reluctance on the Administration's part to take quite positive positions in the matter of appropriate policies with respect to interest rates and other monetary matters. In my judgment a vigorous and flexible fiscal policy would greatly ease our domestic difficulties and would enable the System to cope much more effectively with our perplexing international responsibilities. If the Committee shares this opinion, I hope that a spokesman for the System will find suitable opportunities to make this view heard.

Mr. Bryan presented the following statement:

Nearly all of the new figures for the Sixth District are for August. Nearly all of them indicate a slight weakening of the economic situation in the District. Manufacturing employment, retail sales as measured by department store sales, bank debits, and average weekly hours are down. Insured unemployment is up. Speaking in general, there seems to me little difference between the behavior of the Sixth District and national economic behavior.

We may find, of course, that this pattern is merely the sort of seesaw that has become commonplace in recent months. At the same time, we must be alert to the possibility of an early end to the expansionary phase of the present business cycle. We are still confronted with the conceptual and definitional problems with regard to the money supply, problems that have been so difficult now for so long a time. At any rate we do face a situation in which the money supply, conventionally defined, has moved down, and the rate of growth in time deposits has slowed, so that a given volume of reserves will apparently support a smaller expansion in the total of bank credit. We must likewise face a recent small increase in member bank borrowing and an approach to some upper limit in the growth of deposit turnover.

In the light of this situation, we can answer our policy problems partly by elimination. We must certainly eliminate any idea that banks should be compelled to sell assets in a futile attempt to gain the reserves that are necessary for credit expansion. I believe we must eliminate any idea whatever of reducing the reserve base. That leaves us with the positive problem of how much we do in supplying reserves to the banking system.

In striving to answer that problem, I believe we must conclude that our reserve supplies must be fully equal to the seasonal expansion. For October that would require us to add approximately $57 million to the reserve supply at a minimum. It can easily be argued that we should add more because of deficits from our projections. Next, we must certainly add a supply of reserves for a growth factor in the economy. At 3 per cent, which I regard as a minimum in present circumstances, we should need an additional $50 million.

How then do I come out in the matter of an instruction to the Desk? Well, if we take the October trend line at 3 per cent, it figures to $19,936 million. If we add $107 million for seasonal expansion and for a growth factor, we come out (using total reserves) at $20,043 million for October. 1/ Put a plus or minus $50 million or so for latitude to the Desk, and you would have my instruction. I should add that I would make errors on the side of supplying more rather than less reserves. I should certainly make the error on that side if there is any tendency for member bank borrowing to increase.

The figures I have given can be reconciled with a free reserve figure, but the assumptions necessary for any such reconciliation are so many as to make the attempt a bit futile in my judgment. In any case, though, I believe that

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1/ Since the average daily balance of total reserves September 1-28 is $20,042 million, this policy recommendation is essentially "no change."

> to attain the total reserve figure I judge appropriate to our present circumstances will almost certainly require a free reserve figure of between $400 and $500 million.
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> It will be noticed that I say nothing about the level of short-term rates. The omission is intentional. I think we are rapidly approaching the time when we shall be compelled to make the soul-searching choice between the domestic economy and our balance of payments. My own choice is clear to the Committee. Moreover, I believe it is time for us to stop, or consider stopping, our stately minuet--maybe stately is the wrong word--with the bill rate. Accordingly, if we write an appropriate prescription of reserves for the domestic economy, we shall be compelled, I believe, to let rates go where they will. This does not, I note, preclude our dealing in securities other than bills.

Mr. Bryan then offered the following suggestion with respect to the current policy directive, stating that it was presented with a view to indicating what he thought might be done by way of quantitative instruction to the Desk and not with the expectation that it would be adopted by the Committee:

> It is the current policy of the Federal Open Market Committee to supply the reserves necessary for an expansion of bank credit without the restraining influence arising from an increase in member bank borrowing. The purpose of the Committee is to provide a credit base sufficient for a continuing expansion of the economy.
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> The Federal Open Market Committee believes its policy can be effectuated in October by supplying approximately $57 million of reserves for seasonal expansion and approximately $50 million of reserves for a growth factor, which is at an annual rate of 3 per cent. The Committee thus directs the Manager of the Open Market Account to aim for a figure of $20,043 million of total reserves for October on an average daily basis, with latitude to the Manager of the Account to operate around this figure in accordance with money market developments.
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> However, if there is a tendency for interest rates generally to increase or member bank borrowing generally to increase, the Committee believes that the Manager of

the Account should increase the figure indicated in this directive as a general target by an amount tending to offset the pressures on the banking system arising from an increase of member bank borrowing.

Mr. Bopp presented the following statement:

Three weeks ago we characterized Third District business as generally lacking in vigor. Nothing has since happened to change this assessment. Manufacturing employment, hours, and output are sagging. Recent declines in unemployment rates were of less than seasonal proportions. Strength in department store sales so far this September is more apparent than real, being based on comparisons with a poor month last year.

Bank loans are continuing to rise in our District, with loans to sales finance companies, other financial institutions, and real estate loans pacing the advance. Business loans have continued to increase, but at a slower rate than earlier in the year. Demand deposits have shown little trend recently, but time deposits, after a long period of sustained expansion, have leveled off.

We continue to believe that an easier monetary policy would be effective in stimulating the domestic economy. As recent meetings of the Committee indicate, judgments differ as to the current availability of credit. Some believe that credit is now available in quantities adequate to support an increase in economic activity if the demand for it were to appear. Others believe still readier availability would facilitate economic expansion.

It is clear, however, that an easier monetary policy can produce greater liquidity in the economy whether or not there is an increased demand for bank credit via loans. Open market operations can by themselves generate larger deposit balances because they would be invested. If, by increasing liquidity, monetary policy can have a stimulative effect during early phases of expansion, it remains to be demonstrated why further liquidity may not continue to stimulate. The effect may be marginal (and perhaps a declining margin), but this is all we are seeking.

The real question concerns not the ability to increase liquidity but the advisability of doing so. Given the balance of payments problem, we cannot, of course, play fast and loose with liquidity. But it seems possible now that the balance of payments is improving and exchange markets have become more stable to move cautiously in the direction of more ease.

> Making allowance for periods of Treasury financing, we would interpret such a position as meaning somewhat lower market rates and somewhat larger reserve totals. We should like to see the seasonal needs for funds supplied without any significant pressure in the market, and would welcome an increase in the money supply.
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> If this policy were adopted, some rewording of the directive, along the line of that of May 29, 1962, would be appropriate. We would not change the discount rate.

Mr. Fulton said that most of the August dip in economic activity in the Fourth District appeared to have been recouped during the first three weeks of September. Department store sales increased, and it looked as though this month they might regain their all-time high. For the year to date they were 3 per cent ahead of last year. Sales of new cars were displaying more than seasonal weakness, possibly due to the lack of availability of some models. Construction was down in both Cincinnati and Cleveland and remained at the reduced level of August. Unemployment had shown no significant change since July. As might be expected, most of the steel centers had the greatest percentage of unemployment. However, in conversations around the District, manufacturers did not seem to feel that the outlook was too dismal. Instead, there seemed to be a rather good feeling about the level of business in practically all industries. The automobile people were optimistic, the chemical industry was good, and the paper container industry was good. The situation might be characterized as "nervous stability." The machine tool industry was one that was not in good shape. Order backlogs were being reduced, and foreign orders had been falling off due to the ability of European plants to speed up their deliveries.

Some corporations reportedly were restricting plant and equipment spending until next year, if then, with the idea of finding out what kind of tax revisions might be instituted. However, spending for the purpose of keeping plants competitive was continuing.

In the steel industry there had been some pickup in orders, but from a very low level. Orders for pipe were not doing well, reflecting in part the completion of several large transmission lines. On the other hand, orders were now coming in from the auto industry for November and December delivery. Fourth quarter production seemed likely to show modest improvement. The third quarter total would be less than had been projected earlier, and total production for the year was estimated at about 98 million tons. The outlook for next year was 95 - 96 million tons. The union had declared that it was going to ask for more money through reopening the present labor contract; the steel companies indicated there would be nothing for them to do except face a strike. If the unions persisted in statements of the kind they were now making, there would be a build-up of inventories in the early part of next year, with a probable letdown in the second half.

Bank loans had been increasing in the District, with the increase in term loans rather marked. Apparently there were sufficient funds available to the banking system to permit the banks to make all of the loans they legitimately should make. In fact, the banks were reaching for loans.

Mr. Fulton said he did not feel that, in the present circumstances, there should be any increase in reserve availability. Instead, an "even keel" would be desirable. In other words, he would favor maintaining about the same market tone that had prevailed during the past three weeks, while keeping an eye on the short-term rate. He would not change the discount rate.

In the period from now until the end of this year, Mr. Fulton added, the System would be required to supply a substantial amount of reserves on a seasonal basis. In his opinion, consideration should be given to a reduction of reserve requirements, which would provide a means of injecting a quantity of reserves without direct impact on short-term rates. He understood it had been a general objective to reduce reserve requirements as opportunities presented themselves, and the situation he had mentioned seemed to provide one of those opportunities.

Mr. Mitchell expressed the view that the Committee should adopt a policy of greater ease, and that this should be implemented by operations in the intermediate market. Government securities dealers had a good supply of intermediate-term securities that he presumed could be tapped by the System. Maintenance of the level of short-term rates, through efforts of the Treasury and the Federal Reserve, had resulted in abnormalities that would cause trouble if a certain course of developments should take place. In view of the international situation, the Committee could not afford to ignore the trend of short-term rates. Nevertheless, it should expect them to go down. It could not operate in the longer-term market without effects on the short-term rate.

The directive should be modified, if only to indicate that the Committee was aware of the widely-held view that the country might be facing an imminent recession. It should not appear from the directive that the Committee was unaware of that view.

Mr. Mitchell went on to say that his position on monetary policy was not based on month-to-month changes in business activity. Instead, it was based on the relationship of business activity to productive capacity. As long as the economy was operating well below reasonable levels of capacity, monetary policy should be expansionary, and in his opinion it had not been adequately expansionary. The view that fiscal policy probably could do the job better was a view to which he subscribed. Probably other methods could also deal better than monetary policy with the balance of payments problem. However, this did not mean that the System should refrain from doing anything it could to be helpful. In essence, he came out at about the same position that he had expressed at recent Committee meetings. He continued to advocate a policy of somewhat more ease.

Mr. King said the economic presentation today tended to confirm certain thoughts that had been developing in his mind over a period of months. It appeared that the business cycles in this country had been shortening, and that the peaks and valleys had been moderating. If this was to be expected, what did it suggest in terms of monetary policy? To him it suggested that the old benchmarks, reference points, and guidelines probably were becoming obsolete. It suggested more moderate shifts of policy from one side to the other during both the expansionary and contractionary phases of the cycle.

In his view, Mr. King said, the recent increase in time deposits represented a concealed increase in the money supply, and the money supply would increase if the banks started reducing their rates of interest on time and savings deposits. Already there were some reports of actual or contemplated reductions. Therefore, he was not too concerned about the conventionally-defined money supply. However, he believed that the policy directive needed to be changed. The words indicated that the Committee had been doing certain things in regard to the money supply that the record would show it had not actually been doing. According to the directive, the Committee's policy was to permit a further increase in the money supply, whereas the narrowly-defined money supply had been static or contracting. In general, he leaned away from the idea of changing the directive in the absence of some change in monetary policy. In this instance, however, he felt that some change was in order.

Mr. King also commented that he would not be too concerned if the bill rate should decline somewhat, even as low as 2-1/2 per cent.

There was such a thing as overstaying a position, and in his opinion that may have been true in this instance. Therefore, he would not object if less emphasis was placed on the bill rate, not forgetting it entirely but not being so concerned about maintaining the rate as during the past several months.

In summary, Mr. King said, he would not recommend any real easing of monetary policy. The country had been going through a period in which substantial overcapacity had developed. He had seen this occur in industries of which he had direct knowledge, and he did not believe that the availability of more credit at lower rates was a material corrective factor. If he thought it was a material factor, he would be inclined to move somewhat in the direction of greater ease, but there was too much to lose by pumping more liquidity into the economy at this stage. However, he would not be too concerned about the bill rate unless it reached substantially lower levels than at present.

Mr. Shepardson said he saw nothing in the staff report to indicate any significant change in the level of economic activity, although there may have been some slowing down statistically in the rate of advance. Nor did he find any evidence of an insufficiency of funds to meet worthy credit demands. At the recent meeting of the Board of Governors with the Federal Advisory Council, several Council members commented to the effect that there was a considerable supply of funds for which lenders were vigorously seeking profitable uses. Similar comments were heard from other sources. In light of this situation, and with the understanding that the System would meet seasonal reserve needs liberally, it seemed to him that current monetary policy was appropriate.

Mr. Shepardson noted that there had been suggestions today and at recent Committee meetings that a somewhat easier monetary policy might stimulate the utilization of idle productive resources. It was necessary, he thought, to have in mind certain fundamental factors that could have a greater bearing on longer run economic growth, and in this connection he presented the following statement:

> We have been concerned for some time about our two-fold but inseparable problem of less than full employment of our domestic resources and the persisting adverse balance of payments. In my opinion, one root cause of both these problems was the inflationary wage-cost-price spiral that plagued much of the postwar era. It hurt our ability to compete in foreign markets. It inflated domestic costs so much that profit margins and profit expectations were squeezed, thereby discouraging higher levels of business investment.
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> In the past four years we have moved a long way toward checking this spiral. As Mr. Mitchell pointed out at our last meeting, if the economy is not yet in an ideal position as far as the wage-price spiral is concerned, it is better off in this respect than it has been for a long time. I agree, but the wage pressure still exists. Internationally, our relative competitive position seems to be improving, and producers are increasing their efforts to sell in attractive foreign markets. Along with a change of governmental policies concerning spending, loans, and grants abroad, these developments underlie the gradual improvement that has taken place in our basic balance of trade. Domestically, we have largely disposed of inflationary price expectations, maintained a reasonably prosperous level of business, made some resources

freer to shift to more efficient uses, increased the flow of savings to accommodate productive investment, and thus laid the groundwork for additional investment if and when private concerns become attracted by today's prospects for lower but perhaps more stable profits.

I think the prudent monetary policy we have followed has had a good deal to do with this improvement in the fundamental economic health of our country. But many of these adjustments are still in process and others, including some revision of tax and fiscal policy to improve investment incentive, are still needed. Hence it is important that monetary policy not retard or alleviate the pressure for the completion of this transition. To me this implies money readily available to finance soundly based economic activity, but not so easy as to finance diversionary activities, speculation, or continuation of outmoded or overextended operations.

While greater credit availability, more liquidity, and lower interest rates might encourage various shifts in types of borrowing and kinds of asset holdings, they are not likely to stimulate much additional spending by consumers and business, for most such outlays are in response to other and overriding considerations. For example, somewhat greater monetary ease might create some mild tendency for businesses to hold fewer liquid assets and somewhat more inventory. While it is possible that such a shift at this time might speed up the momentum of general business advance, I am inclined to think that any such influence would be very mild and short-lived, and the subsequent letdown could very possibly come at a time which would aggravate deflationary pressures developing from other sources. At the same time the increased credit availability and lower interest rates likely to result from an easier money policy could easily trigger renewed capital outflows abroad, shaking the newly buttressed confidence in the dollar.

Viewed in this perspective, it seems to me that the few marginal gains possible from even a <u>moderately</u> easier monetary policy are more than offset by its immediate hazards. More importantly, the possible effects of such easing, in creating some temporary additional demands, might well slow or divert the fundamental adjustments now taking place that are so essential to the long-run health of our economy.

It seems to me that in the present situation, and with the long-run concept in mind, current monetary policy is appropriate. I would suggest no change.

Mr. Mills commented that he would not recommend a change in the discount rate. He was not particularly optimistic about economic prospects. However, any change in the policy directive at the present time that might indicate acceptance of the probability of slower economic activity would imply a greater shift in open market policy than he thought would be justified. His concept of an appropriate monetary and credit policy could be carried out within the context of the present directive if open market operations were aimed at producing the levels of free reserves that had developed in the first two weeks of the period since the preceding Committee meeting, and if they sought to avoid an abrupt contraction such as occurred in the third week. He regarded that contraction as vitiating the potential beneficial effects that were inherent in the reserve statistics of the first two weeks of the period. He shared Mr. Mitchell's concern about the fixation on maintaining a stable structure of interest rates because, under cover of that assumed stability, he believed there were pressures and distortions building up that could constitute a serious hindrance to a flexible Federal Reserve policy in the weeks and months to come.

His further comments, Mr. Mills said, would touch on those same factors and in a sense were a prelude to the subject that Mr. Keir of the Board's staff had discussed in his paper (distributed to the Open Market Committee under date of October 1, 1962); that is, the question whether the System should support the long-term Government bond market during the underwriting period of the Treasury's forthcoming offer of $250 million of long-term bonds for competitive bidding by private syndicates. He thought it was a certainty that the System would be involved in a peg if it drifted into acceptance of any invitation to give support to the Treasury's new program. Mr. Mills then presented the following statement:

> The unusually high levels of U. S. Treasury balances in its Tax and Loan Account depositories and in the positions of U. S. Government securities dealers have originated from Federal Reserve System policy actions intended to prevent short-term interest rates from falling too low and long-term interest rates from rising too high. Each of these situations is the offspring of official actions that have interfered with the free interplay of natural forces in the U. S. Government securities market and have made the attainment of the policy objectives sought after more, rather than less, difficult.
>
> In the case of the U. S. Treasury's abnormally high Tax and Loan Account balances, funds have been abstracted from the general money flows by increased offerings of short-term U. S. Government securities, the greater supply of which was aimed at bolstering short-term interest rates. The funds impounded through this policy would have served better economic and financial purposes if they had been retained in private hands and a downward pressure on the money supply would have been avoided. Their release and return now into private money flows would, to a certain extent, strengthen the basis for bank credit expansion, thereby lessening the need for seasonal purchases of U. S. Government securities for the System Open Market Account with a resulting unwanted downward pressure on short-term interest yields. Action of this kind would be a desirable step away from artificial market interference and what has become a market pegging operation.
>
> The exceptionally high positions of the U. S. Government securities dealers are likewise a product of official interference in the U. S. Government securities market. In observing the avowed interest rate objectives of Federal Reserve System policy makers and the consequent effects of their price pegging operations, the dealers have developed

> confidence in the permanence of the present interest rate structure that has encouraged an expansion of their positions for profit motives rather than out of any acknowledged responsibility for making markets in U. S. Government securities. If a large part of dealer inventories had not been held off the market but had moved into investor holdings, an upward pressure on short-term interest rates would have been exerted that in turn would have simplified the management of Federal Reserve System policy.
>
> The complications to the conduct of a viable Federal Reserve System policy that are inherent in artificial interventions in the U. S. Government securities market are apparent in the two situations discussed. I repeat my belief that every opportunity should be taken for again developing Federal Reserve System policy along free market lines that are geared largely to a "bills only" principle.

Mr. Wayne reported that statistics, supplemented by the Richmond Reserve Bank's own survey, indicated that Fifth District business had not deviated significantly from its generally level course. A few areas had continued to weaken, and the District's extensive textile industry headed this list. But improvements elsewhere had thus far tended to offset the declines.

Business activity nationally, it seemed to him, declined slightly in August. While this might represent nothing more than a continuation of the recent zig-zag movement around a gently rising trend, he found it somewhat disturbing that the improvement realized in July was not sustained. As for the immediate future, he saw no substantial reason for believing that the fall upturn this year would be much better than seasonal.

In considering policy, it seemed to Mr. Wayne that recent foreign developments might deserve special attention at this time Foreign money markets had eased significantly in recent weeks, and the impending reduction in special deposits in Britain suggested some further easing in the weeks ahead. For this and other reasons, the dollar had lately shown encouraging strength against the major European currencies. This situation raised the question whether, for domestic purposes, a somewhat easier policy could safely be followed. He was inclined to be skeptical on this point for several reasons. In the first place, he was not altogether sure there was any real substance underlying the dollar's recent strength, especially in view of the estimates respecting the balance of payments deficit in August. In the second place, he doubted that the additional amount of ease permitted by the dollar's new strength could provide any significant domestic stimulus. Finally, he believed it was wiser for the present to allow the dollar's new strength, whether temporary or permanent, to be reflected primarily in a reduced balance of payments deficit. This would strengthen foreign confidence in our policies and place the dollar on a firmer basis abroad. It would also give us a freer hand to direct our actions more specifically at the domestic situation if this should become more urgent later this fall. For these reasons, he would favor maintenance of about the degree of ease that had been aimed at over the past few periods, with the Desk giving major attention to the tone and color of the market.

Three weeks ago, Mr. Wayne recalled, he had proposed a slight change in the directive to eliminate reference to "further" increase in the money supply. He renewed this proposal. Otherwise, no change in the directive seemed desirable. He would recommend no change in the discount rate.

Mr. Clay suggested that the Committee modify its monetary policy by giving somewhat less emphasis to international payments considerations and somewhat greater emphasis to the problem of domestic economic activity. For many months, he noted, monetary policy had been shaped in terms of both domestic and international considerations. In determining the policy to be pursued, Committee members had referred to the relative emphasis that should be given to these two aspects. It was in pursuing the matter in this way, for instance, that the decision was made last June to reduce the degree of monetary ease by giving greater weight to the international payments problem.

In the meantime, the international balance of payments problem generally had come to be viewed somewhat more favorably. The international payments situation and prospects had to be judged not only in terms of the interpretation of the available data but also in terms of the prevailing international attitude. Both of these facets of the problem had shown improvement recently, just as both registered the earlier deterioration that the Committee decided it had to deal with. This was not to say that the international payments problem had been solved and accordingly could be ignored.

At the same time, Mr. Clay pointed out, the domestic economic situation had become less encouraging. It had become increasingly difficult to project a satisfactory degree of economic expansion ahead, and the possibility of another abortive upswing such as that in 1960 loomed larger month by month. The problem of resource utilization that plagued the economy very likely involved something more fundamental than the course of this business cycle. Moreover, it would be naive to assume that the cure for all our ills could be found in any prescription of monetary policy alone. But that was not to deny the importance of monetary policy making its appropriate contribution and of endeavoring to assure that monetary policy did not impede but rather encouraged economic expansion.

Mr. Clay noted that his suggestion for a change in emphasis between international and domestic considerations and for a greater degree of monetary ease was a very moderate one. It might be stated as a policy under which reserve funds would be supplied liberally enough to assure bank credit expansion beyond seasonal proportions and under which operations would probe toward a slightly lower Treasury bill rate. In the process, it could be expected that interest rates would decline in the longer maturities as well, and that would be a desirable development. In fact, that tendency should be encouraged by making some open market purchases in those maturities. If, in the Committee's judgment, the Treasury bill rate could not be permitted to decline, it would be all the more important that open market operations be conducted in longer maturities with a view to encouraging some reduction in longer term interest rates in that way. No change was recommended in the Reserve Bank discount rate.

Mr. Scanlon said available evidence for September indicated continuation of business activity in the Seventh District at a stable or gradually rising level. While some businessmen expected a recession beginning in the fourth quarter of this year or early 1963, the more generally held view was that the present level of activity would be maintained or that there would be a slight improvement during the remainder of this year. During the summer months there had been some decline in District manufacturing activity. Part of this was attributable to the closing down of automobile plants for the model changeover, but other lines of activity also were affected. One important industry, radio-television, cut back production sharply to reduce inventories. At present the automobile industry was awaiting public reaction to the new models before making further forecasts. In the real estate field, there was some concern that apartment construction might be approaching a peak. New units were more difficult to rent, even with substantial concessions. A number of large commercial structures planned for the Chicago area had been delayed, if not canceled, because sufficient floor space could not be leased in advance. Retail trade was following the national pattern; for the four weeks ended September 22, department store sales were 8 per cent above last year. As the result of excellent crops and favorable prices, farm income was going to exceed last year's level, and it appeared that the higher level of income was likely to be maintained in 1963. Business loan demand improved somewhat in the first three weeks of September.

In view of the continued stability of business activity at a level moderately below what he considered desirable, Mr. Scanlon suggested that reserves be provided liberally to meet seasonal needs. Beyond this, it would seem appropriate to provide additional reserves to the extent that this could be done without excessive stimulation of capital flows abroad. In the absence of a sufficiently strong demand for capital, this presented the possibility of a further decline in bill rates. He would be inclined to let the bill rate decline slightly, but he would continue to keep a close watch on domestic and international developments.

Mr. Scanlon concluded by saying that he would not recommend changing the discount rate or the policy directive.

Mr. Deming reported that the Ninth District continued to move along fairly well. Economic activity had expanded more in the first three quarters of this year than the comparable period of 1961, due to greater output of manufactured products and minerals along with a better agricultural situation. A near-record small grain crop was being harvested. There had been no significant changes in employment in recent months. Preliminary Minnesota employment figures for September showed a slight gain from August, with unemployment down somewhat. The Reserve Bank's most recent survey of business sentiment showed no substantial change from the results of the survey taken six weeks earlier. Two-thirds of the respondents felt that some improvement was probable during the next several weeks, while one-fourth looked for stability and less than 10 per cent looked for a decline. The percentage anticipating a decline was slightly higher than six weeks previously, but not significantly higher.

During September there was a large loan increase at city banks, with a substantial part of the increase in business loans. Demand deposits were growing rapidly at both city and country banks. Time deposit growth had slowed at city banks, but such deposits were still running 50 per cent ahead of last year. At country banks, time deposit growth continued at the rate that had prevailed thus far this year.

Mr. Deming said it seemed to him there had been a worsening of the balance of payments problem recently, but at the same time some increase in confidence in the dollar. The present situation might afford a little more latitude with regard to the bill rate than had been thought possible in the recent past. However, the liquidity of the banking system, and of the economy generally, appeared ample. Banks were working hard to make loans, and with a reasonable amount of success in the Ninth District. There seemed no reason to make the banks sell assets in order to expand their loans, or to cause them to borrow. In his opinion, however, a loan expansion without such results could be achieved under current monetary policy, and he would favor maintaining about the same posture as at present. He would meet seasonal reserve needs adequately, perhaps generously and somewhat in anticipation of those needs, and he would try to keep member bank borrowing at its current low level. For a free reserve guide, he would suggest approximately $400 million. As to the bill rate, while he would not want it to decline too much, he would not worry if it dropped another 4 to 6 basis points.

In summary, Mr. Deming said, he was not advocating a policy of more ease. However, he would be inclined to place more emphasis on the side of reserves than on the side of the bill rate. He saw no particular reason to change the policy directive, and would be willing to argue that there was no need to change the word "further," as used in the first sentence. In its present form the directive said just about what he was attempting to say with regard to monetary policy. He saw no reason to change the discount rate.

Mr. Swan reported further economic gains in the Twelfth District, but at a very modest rate. Department store sales were well maintained in August and on into September. The unemployment rate in the Pacific Coast States (seasonally adjusted) declined from 5.9 per cent in July to 5.7 per cent in August. Employment increases although small in total were fairly general, with the largest occurring in construction. Some encouragement could be taken from the fact that in manufacturing there were gains in both durable and nondurable categories. The only major manufacturing industry showing no improvement from July to August was lumber and wood products.

At weekly reporting banks total credit continued to rise during the first three weeks of September, with loan increases playing a rather significant part. Business loans increased and real estate loans continued to rise. One major branch banking system indicated recently that the increase in real estate loans, which it had been pushing for several months, had now gone about far enough to suit its purposes from the standpoint of portfolio balance. In August, there was a substantial increase in share accounts at savings and loan associations.

Turning to policy, Mr. Swan indicated that he would favor moving cautiously toward a little greater ease. In a sense he felt that this had been done in the first two weeks of the past three-week period. The results were about in line with what he would have liked to see previously. The System would have to supply a substantial amount of reserves to meet seasonal developments in the immediate future, and it should encourage a somewhat more than seasonal expansion in bank loans. Admittedly, it was not possible to solve everything through monetary policy, but in his opinion some operation on the margin was entirely justified. One of the reasons he had been advocating only a modest move toward greater ease was that while he had some question about the efficacy of still higher levels of short-term rates he also recognized that a too sudden or too large decline in short-term rates might have adverse effects from the standpoint of foreign confidence in the dollar. However, since mid-July the bill rate had moved from a high of virtually 3 per cent to the present level of 2-3/4 per cent with, as far as he could see, no significant loss of confidence. He saw no reason at the moment for trying to move back up from the present level.

In summary, Mr. Swan said, he would supply reserves fairly freely. He would think in terms of a free reserve figure somewhere around $450 million and a bill rate that would fluctuate around or slightly below 2-3/4 per cent. He would define his prescription as a modest move toward greater ease.

After stating that he would not recommend a change in the discount rate, Mr. Swan turned to the policy directive and said he had some sympathy with the point expressed by Mr. Robertson at the September 11 meeting. The present directive could well encompass the type of policy that he (Mr. Swan) had in mind. The main question seemed to center in one's interpretation of the final phrase in the directive, which referred to maintaining a moderately firm tone in money markets.

Mr. King withdrew from the meeting at this point to leave for an out-of-town engagement.

Mr. Irons said that on the basis of figures for August and the first part of September activity in the Eleventh District seemed to continue without much change on a very high plateau. Most of the major indicators showed increases around 6 or 8 per cent from the year-ago range. He was not sure how the economy would come out of the present plateau. In the past it had never been known in advance just how the economy was going to move in such a situation. There was a tendency to keep looking for figures that might provide a clue; sometimes he thought it might be better to concentrate less on relatively small changes in figures.

Attitudes in the District were good, according to Mr. Irons, with no pessimism evident among businessmen and bankers. He did not find any expectation of a great upsurge, but the majority sentiment looked for some further improvement during the remainder of this year. Department store sales were running 8 per cent above a year ago, with the recent movement just about seasonal, and there was no change in crude oil production. The allowables that had been in effect for some time were expected to continue, but the industry had effected economies and should show quite satisfactory profits at the end of the year. The industrial production index showed no change in the past month. Non-agricultural employment was up, and unemployment was at the rate of

4.7 per cent. Construction activity continued at a high level, although it dropped off seomwhat in the past month. On the whole this was going to be a good year foo agriculture, with cash farm receipts probably 6 to 8 per cent above a year ago. Thus the picture in the Eleventh District was generally satisfactory. In his judgment, there was no indication at this time that the economy was inevitably recession bound.

Mr. Irons said that he came out again in his thinking in favor of a continuation of current policy, with no change in the directive or discount rate. The Account Management should be given considerable leeway to operate according to the tone of the market, and he did not think the Committee should set up any figures as an absolute guide. However, if current policy were continued, including provision for a full and adequate supplying of reserves for seasonal purposes, he felt that this would probably result in free reserves somewhere around $400 million, give or take $50 million, Federal funds in the 2-3/4 - 3 per cent area, and a bill rate around 2.70 per cent. As to the bill rate, he would not put too much weight on any specific figure, but he would watch the situation continuously to avoid getting out of line with other factors and bringing about a situation that was not wanted. Perhaps a range from 2.65 to 2.75 per cent would be satisfactory. The Desk had a good impression in terms of tone and feel of the market, and could take steps to maintain the bill rate within an appropriate range. He would expect member bank borrowing to remain small, as it had been except for a day or two. The banks should not have to borrow for normal seasonal requirements in the weeks ahead.

In conclusion, Mr. Irons said that to the extent possible, without aggravating other factors and without having to undertake substantial open market operations, he would consider it desirable to operate in the intermediate area of the market in order to relieve pressure on the short-term rate. He recognized that it might not be possible to do this in substantial amount or continuously.

Mr. Ellis said that in New England the upward economic creep was continuing. In August, the industrial production index gained 1-1/2 points. Data for September were very slender, but they did reflect strong department store sales. Auto dealers reportedly were pleased with customer acceptance of the new models, and some reported a record backlog of orders.

Mr. Ellis noted that the recent report of the Wharton School of Finance on investment funds had been blamed in some quarters for the recent weakness in the stock market. There was a measure of apprehension that the report would result in slower investment fund sales, and that some funds might become net sellers rather than buyers, with potential market impact. A check indicated that salesmen had encountered some customer resistance traceable to the impact of the report, and that sales were somewhat slower in September.

However, the effects appeared to be minor and the funds apparently were continuing to grow. There seemed to be no real prospect of their shifting to the position of net sellers.

First District banks apparently continued to experience a somewhat greater than seasonal loan demand. With demand deposits dropping a little more than seasonally in August and September, the average loan-deposit ratio reached a postwar peak in early September. Since then, there had been some recovery of deposits, thus lowering the ratio slightly.

Mr. Ellis noted that the results of open market operations during the past three weeks had been within the area of expectations at the September 11 meeting. Except for one brief period, the Desk had avoided inadvertent tightness, which was in accord with the hope expressed generally by the Committee. The market appeared to have an understanding of the System's willingness to supply reserves liberally as needed.

Mr. Ellis went on to say that there continued to be need for concern about the international movement of funds. The position of the dollar might be explained verbally for a while, but the real impact was in the figures themselves. Therefore, he would like to see the System allow the international position of the dollar to be firm, and hold that firmness for a while, before probing to find the effects of a lower short-term rate. While it was necessary to have in mind internal problems, the domestic economy was still advancing. Until he saw a somewhat more serious economic prediction than was apparent in today's staff presentation, he would regard any material change in policy as both unnecessary and undesirable. In these circumstances, and in view of the evidence of adequate liquidity and adequate availability of funds, he was led to suggest that there not be any basic changes in policy. For the forthcoming period, he would have in mind free reserves in the area of $400 million, a Federal funds rate within the pattern that had prevailed since last spring, and a short-term rate of around 2-3/4 per cent. He would continue to endeavor to avoid any inadvertent market tightness, and he would meet seasonal reserve needs freely, with a view to keeping member bank borrowing at a low level.

As to the directive, Mr. Ellis said he was disturbed by the use of the word "permitting" in describing the Committee's attitude toward expansion of bank credit and money, for he felt the word implied a grudging attitude that was not appropriate at this time. Without intending to suggest any change of a material nature in policy, he felt that the first paragraph of the directive could be improved by indicating that the Committee's policy was to encourage the expansion of money and bank credit. He would not recommend any change in the discount rate at this time.

Mr. Balderston commented that he had heard a great deal this morning with which he could agree. His own thinking brought him to about the same position that had been described by Mr. Ellis. The suggestion made by Mr. Hayes regarding the importance of fiscal policy was one with which he concurred. However, as he thought about that problem in relation to the determination of monetary policy, he kept reminding himself that although Federal spending in excess of receipts doubtless could be a potent stimulus if devoted to constructive purposes, such spending in this country was not always as constructive as it might be in terms of increasing the health of the economy and its competitive strength. Much of the Federal spending did not create permanent job opportunities, in fact tended to damage the profit expectations that would stimulate private investment and the creation of jobs.

Mr. Balderston felt that the nature of the over-all problem had been described well by Mr. Shepardson. Existing excess capacity and unemployment could be traced to wage rates that had tended to keep many potential employees out of jobs and had resulted in prices that made it difficult, in some lines, to compete in world markets. The question was how to proceed from the present point. The progress in re-establishing a basic international balance was all too slow, and the figures presented this morning did not indicate that the problem would be solved quickly. During the time necessary to re-establish that basic balance, the willingness of foreign central banks to keep their reserves in dollars might diminish further. Consequently, he concluded that the Committee could not dismiss international considerations from its thinking and would not be able to dismiss them over the foreseeable future. While he would like to see some variation in interest rates to get away from the constant talk of pegging, the System should be alert continually to the impression being created in the eyes of foreign bankers, who were watching all the time to see whether the proper discipline and judgment were going to be exercised. Even though the situation now confronting the Federal Reserve was not of its own making and could not be corrected by monetary policy alone, nevertheless the central bank was looked upon by the world as reflecting the mood of the country in the area of monetary affairs.

All of this suggested to him, Mr. Balderston said, that the System must continue to live with the problem of reconciling domestic and international goals. He saw no better pattern to follow than the one that the System had been following. Therefore, he came out at the point of favoring continuation of the status quo.

Chairman Martin, after referring to the thoughtful tone of the discussion at the September meeting and at this meeting, went on to say that he had been planning to comment along somewhat the same lines as Mr. King. First, however, he wanted to make it clear that he did not profess to know the answers to the present problem. He did not have any firm conviction on a positive approach to its solution. Like Mr. King, he thought a stage had been reached where the old benchmarks and tests no longer applied. Mr. Bopp had stated effectively the case for easier money. If the old benchmarks and the old standards still applied, that would be the course to follow, but he (Chairman Martin) doubted whether they did. He was convinced that one could make just as good a case, in the present circumstances, that easier money would retard growth and development as that it would assist. The case could not be proven on either side, of course, but this was the real problem with which the System was dealing.

The Chairman recalled having referred a number of times to the real estate situation. At present he had just come back from a personal study of apartment building in one area, and he was convinced that the picture would be better if funds were not so readily available; that the situation would be handled in a more satisfactory way, with satisfactory rentals, if it were not for the fact that builders could obtain all the credit they wanted at relatively low rates. Also, unless conditions changed in the economy, he thought it possible that the prime rate might be reduced. If that was in prospect, he would prefer to have market forces take the lead, just as he would on the up side, rather than to see the Federal Reserve in a forcing position.

The Chairman said he came out with the view that when you are not clear what you should do--when there are two sides to the question--the maintenance of the status quo is usually the best course to follow. He felt that this would be the most appropriate policy for the Committee to follow at this time.

In saying this, the Chairman continued, he wished to express his concurrence with those who had commented about a lack of comfort in the balance of payments problem. He had come away from the Fund and Bank meetings with a rather dim view of the situation. While he hoped that he was wrong, it would be foolish to ignore the possibility of a payments crisis at some point. The pace of activity throughout many parts of the world seemed to be slowing down at the same time, and he doubted whether the old stimulants were going to be brought to bear on a methodical basis, because nations would tend to reason primarily in their own interests. While he hoped he was wrong, there could be a critical period ahead. Admittedly, many storms had been foreseen that never developed, but he felt it was the part of wisdom to move cautiously.

With regard to the points that had been made about fiscal policy, Chairman Martin recalled having remarked at the September meeting about the persistent tendency over a period of years to place on monetary policy too large a burden. Perhaps this would never change, but he felt it was the wrong approach. Should any crisis develop, he doubted whether monetary policy was going to be terribly effective.

The Chairman repeated that he was not sure what should be done in this kind of a situation. Since we were not living in a laissez-faire economy, various efforts would be made. He hoped the tax reform that had been overdue for many years would be accomplished, and he thought it probably would. In broader terms, he noted that it is only when substantial difficulties are encountered that ways are found to meet them. In talking as he had, he might be taking too pessimistic a view. Nevertheless, he had felt that he should make these general observations, hoping at the same time that he was completely wrong in his judgment.

So far as the System's posture was concerned, Chairman Martin felt that it should supply all of the reserves that could be used constructively. In many areas of the economy, however, it was his judgment that additional reserves could hinder rather than help.

Chairman Martin then said that while he thought the suggestions made regarding the policy directive had merit, in his opinion it was possible to operate satisfactorily under the present directive. The use of the word "permit" had been debated before; perhaps a better word could have been chosen initially. However, he was not sure to what extent it was desirable to change words in the absence of a fundamental change in policy. It seemed to him questionable whether the directive could be much more than a skeleton outline within which the Account Manager had to work, knowing the shades of opinion around the table.

Chairman Martin said it would be his inclination to poll the Committee on the basis of no change in the discount rate and no change in the policy directive, and see whether that carried. If it did, any dissents would, of course, be recorded. If it did not carry, the question of the wording of the policy directive could be opened up for further discussion.

Question was raised whether this implied a continuation of current policy, and the Chairman replied in the affirmative.

A poll was then taken on the basis indicated, and eight members of the Committee recorded themselves in the affirmative. Messrs. Mills and Mitchell dissented.

In dissenting, Mr. Mitchell said that he did not object particularly to the language of the directive and that he would not favor a change in the discount rate. However, he felt that monetary policy should be easier.

Mr. Mills said his reasoning was similar to that of Mr. Mitchell. He felt that a maintenance of the status quo was not appropriate to present conditions and that the Committee should move very gradually toward a somewhat greater degree of ease. He shared the Chairman's concern about the longer run outlook and the possibility of a payments crisis. However, the stronger the American economy, the better this country would be able to stand any such crisis and assist its friends abroad. To that end, in his opinion, a policy that would be modestly more expansionary than the status quo should be adopted.

The Chairman then inquired whether there were other comments, and Mr. Hayes said he would like to make it clear that in talking about fiscal policy in the course of his statement today, his comments were directed primarily toward tax reform.

> Thereupon, upon motion duly made and seconded, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to effect transactions for the System Open Market Account in accordance with the following current economic policy directive:

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

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

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

Chairman Martin referred at this point to the announced intent of the Treasury to offer within the near future $250 million of long-term bonds for competitive bidding by syndicates. He noted that Mr. Stone had referred to the forthcoming program and that Mr. Mills had alluded to the memorandum from Mr. Keir, which dealt with the degree of Federal Reserve support to the market that would seem appropriate during the period of the underwriting.

Mr. Hayes said that he had read Mr. Keir's memorandum with interest. If there was a point where he differed to any extent with the author, it might be in the suggestion--made or implied in the memorandum--that the Federal Reserve should make some statement to the market regarding its policy, and furthermore that the Federal Reserve should regard itself--within its own ranks--as having some commitment in this respect. Mr. Hayes felt that the System should avoid any real or implied commitment and should make no formal statement to the market. He believed that the System should try to maintain an even keel during the period of the underwriting, just as it had always done in times of Treasury financing. There might be a slight difference, in view of the new technique being employed, from the standpoint of the length of the period when the even keel would be applicable; Mr. Keir's definition of the applicable period seemed to him about right. In substance, however, he would hope the Federal Reserve might simply indicate to the market, if asked, that it would have every intention of trying to do what it had always done to maintain an even keel during periods of Treasury financing. He would try to avoid too specific a definition. The Government securities dealers were well aware of what had been done in the past, and they could interpret to the investment banking community approximately how the even keel had worked.

Mr. Mills said he subscribed to what Mr. Hayes had just stated. He would be extremely cautious about saying anything. The market should look to the good faith of the System to give every reasonable encouragement to a Treasury financing, as it had done in the past. Mr. Mills expressed concern that if programs of this kind were conducted, and one of them did not go particularly well, the Federal Reserve would be importuned to offer strong support to the Government bond market and would run the risk of moving toward a peg.

Chairman Martin commented that to him it made good sense that the System should not bind or commit itself in any way and that it should exercise caution. He subscribed completely to what Mr. Hayes had said. The Chairman then inquired whether there was any different view.

Mr. Noyes noted that he had found the words "even keel" unsatisfactory. He inquired whether, if any comment were made, the words might be excluded and the comment phrased in terms of avoiding any major change in policy during the period of the underwriting. He had observed that people frequently placed more meaning on the words "even keel" than was intended.

Chairman Martin replied that, while he agreed, no doubt one of the first questions asked would be whether the System intented to maintain an "even keel."

Mr. Hayes observed that through long usage the words "even keel" did exist in the minds of many people in the market. If an effort was made to avoid their use completely, people in the market might feel that something had changed.

Mr. Bopp suggested that the System could not even commit itself not to make any major change in policy. It could hardly make any commitment except to act in a manner that would be regarded as rational in the prevailing circumstances.

There being no further comments from members of the Committee, it was understood that the Committee agreed generally with the point of view expressed by Mr. Hayes in his initial statement on this subject.

Messrs. Koch and Broida withdrew from the meeting at this point.

There had been distributed to the Committee a report from the Special Manager of the System Open Market Account on foreign exchange market conditions and on Open Market Account and Treasury operations in foreign currencies for the period September 11 through September 26, 1962, together with a supplementary report covering the period September 27 through October 1, 1962. Copies of these reports have been placed in the files of the Committee.

At the request of the Chairman, Mr. Coombs commented in supplementation of the written reports with respect to foreign exchange market developments, the United States gold position, System foreign exchange operations, and Treasury operations that had been undertaken or were now in process.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the System Open Market Account transactions in foreign currencies during the period September 11 to October 1, 1962, were approved, ratified, and confirmed.

With reference to prospective System operations, Mr. Coombs noted that under the $100 million swap facility with the Bank for International Settlements, entered into on July 16, 1962, there remained outstanding $40 million under the System's July 16 Swiss franc drawing along with $10 million under the August 7 drawing. (Of the $50 million July 16 drawing, $10 million had been repaid.)

Mr. Coombs said he was hopeful that the System would be able to acquire additional Swiss franc balances during the coming weeks. However, it did not seem probable that the System would be able fully to reverse the outstanding drawings by the maturity date of the swap arrangement. The dollar had been strengthening against the Swiss franc, but not to a point where sizable purchases could be made.

Accordingly, Mr. Coombs suggested that the Committee authorize a three-month renewal of the swap arrangement with the Bank for International Settlements as well as the outstanding drawings.

> Without objection, the proposed three-month renewal of the swap arrangement with the Bank for International Settlements, as well as the outstanding drawings thereunder, was authorized.

Mr. Coombs also referred to the $100 million swap arrangement with the Swiss National Bank dated July 16, 1962, and to the outstanding drawing of $50 million made on the same date, none of which had been repaid. The circumstances of this situation being the same as previously indicated with respect to the swap agreement with the Bank for International Settlements, Mr. Coombs suggested that the Committee authorize renewal for a three-month period of the swap arrangement with the Swiss National Bank as well as the outstanding drawing thereunder.

> Without objection, the proposed three-month renewal of the swap arrangement with the Swiss National Bank, as well as the outstanding drawing thereunder, was authorized.

Mr. Coombs next reported discussion with the Governor of the Austrian National Bank concerning the continued flow of dollars into Austria, which had resulted in reducing to roughly 40 per cent the relationship of gold to dollar holdings of the Bank. Current arrangements within Austria were understood to contemplate the maintenance of a 50 per cent ratio, and it would require gold purchases of roughly $80 million to restore that ratio. In these circumstances he had discussed with the Governor of the Austrian National Bank the possibility of a $50 million dollar-schilling swap arrangement in order to absorb an equivalent amount of surplus dollars on the books of the Austrian National Bank. If this were done, gold purchases between now and the end of this year might be limited to no more than $30 million. Further, upon maturity of the swap arrangement, the transfer of the remaining excess dollar holdings of $50 million into gold might be stretched out over the first quarter of next year.

Mr. Coombs said he would be inclined not to seek renewal of such a swap arrangement at maturity. However, if the swap resulted in delaying the purchase of an equivalent amount of gold for a period of at least three months, he felt that it would be worth while. In the meantime there could conceivably be a reversal of the flow of funds, which would provide a means of liquidating the swap, but he felt that such a reversal was not in immediate prospect. In response to a question, Mr. Coombs cited economic recovery in Austria as the general basis for the inflow of funds. In particular, the tourist trade had picked up substantially.

In discussion of the matter, Mr. Mitchell referred to the Guidelines for System Foreign Currency Operations, as adopted by the Open Market Committee on February 13, 1962, and commented to the effect that they appeared to contemplate operations to deal with short-run reversible flows of funds. He did not understand that they contemplated operations that would interfere with fundamental adjustments, which appeared to him to be involved in the Austrian situation.[1]

In reply, Mr. Coombs noted that reduction of the U. S. gold stock was one of the elements in short-run psychology, which had a great deal to do with the position of the dollar in the exchange markets.

Chairman Martin then commented that he would be inclined to regard the proposed Austrian transaction as an operation constituting an exception to the type of operations contemplated by the Committee's Guidelines. The swap arrangement was proposed on a three-month basis, without renewal, and he saw merit in undertaking this effort for the purpose of spacing out prospective purchases of gold from the United States.

In response to a further question, Mr. Coombs repeated he would not want to hold out to the Committee the hope of a reversal of the flow of funds into Austria such as to permit liquidation of the swap. This was possible, but he would not want to suggest to the Committee that it was a likely possibility. However, if the swap arrangement was executed, he hoped that the Austrians would stretch out their acquisitions of gold until about the end of the first quarter of 1963.

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

In reply to another question, Mr. Coombs noted that the execution of the proposed swap agreement would constitute the giving of an exchange guarantee, not a gold guarantee. The swap agreement would provide a means of postponing the purchase of the equivalent amount of gold by giving the Austrian National Bank something that was not the same as gold, or a gold guarantee, but something that would relieve the pressure upon the Bank to purchase gold. Asked whether he foresaw the possibility of difficulty in purchasing Austrian schillings such as had been encountered in acquiring Netherlands guilders for the purpose of liquidating System drawings under the swap with the Netherlands Bank, Mr. Coombs pointed out that the Austrian schilling was now at its upper limit. At that level there was no problem, because the Austrians must sell schillings at the ceiling under their obligation to the International Monetary Fund.

Mr. Hayes noted that it was necessary to have clearly in mind the difference between the U. S. Government's negative attitude toward the giving of gold guarantees and its attitude toward exchange guarantees under swap transactions. Every swap that had been entered into had involved an exchange guarantee on both sides.

After further reference had been made to the type of operations contemplated by the Committee's Guidelines, Chairman Martin again stated that he would regard the Austrian proposal as an exception. In the circumstances, however, including the cooperative attitude on the part of the Austrian National Bank, he saw merit in making this exception.

Question was raised whether similar situations might not arise in the case of other countries, and the Chairman replied that he thought this was possible. He suggested that the Committee had adopted the Guidelines with a view to possible changes after System foreign exchange operations had been conducted over an experimental period.

Mr. Young indicated that the staff of the Committee would be glad to review the Guidelines from the standpoint of suggesting possible changes to the Committee.

Mr. Hayes commented, in support of Chairman Martin's earlier statement, that the Guidelines had never been intended to be permanent and rigid. At the outset the Committee had not been sure exactly how the foreign currency operations program would develop. It was a question of experimentation.

Mr. Young noted that it would be planned, after the three-month period of the Austrian swap arrangement, that the swap would remain outstanding on a standby basis, so this would be one more step in building up a network of such facilities.

In reply to a question with regard to the advantages seen in an arrangement designed to stretch out over a period as long as six months a loss of gold that would otherwise be in immediate prospect, Mr. Coombs referred to the reaction of the European central banking community to a substantial loss of gold by the United States in any single week. If the United States had to lose gold, it would seem preferable to keep those losses orderly rather than to risk the pressures that might be felt by the respective central banks if it appeared from the gold figures that the line was being broken by unusual purchases of gold by any one central bank. Mr. Coombs said he could assure the Committee that the Treasury considered it desirable to do whatever was possible to stretch out gold losses and minimize substantial losses at any one particular time.

> Thereupon, further negotiations with the Austrian National Bank looking toward the execution of a $50 million schilling-dollar three-month swap arrangement were authorized.

Mr. Coombs reported recent discussions indicating that the Bank of Italy might like to be included in the network of Federal Reserve swap arrangements in the form of a $50 million dollar-lira facility. As he saw it, the major argument in favor of such a swap was the rounding out of a system of swap agreements with the major countries in anticipation of possible future needs rather than any present need. As long as the flow of funds into Italy remained basic, with no speculative overtones visible, he saw no purpose in drawing upon such a swap arrangement with the Bank of Italy. He rather expected that the Treasury would continue its present efforts to deal with the problem by various arrangements. Accordingly, he suggested that the Committee authorize negotiations with the Bank of Italy looking toward a $50 million dollar-lira swap facility on a standby basis.

Without objection, negotiations looking toward the arrangement of such a swap facility were authorized.

Mr. Coombs stated that during the recent Fund and Bank meetings a representative of the Bank of Japan had initiated discussions regarding the possibility of a dollar-yen swap arrangement. Mr. Coombs noted that the yen was not a fully convertible currency, but that Japanese officials hoped to be able to make considerable progress in that direction before too long. If this was done, he felt that it might be useful to enter into a swap arrangement with the Bank of Japan. The Japanese balance of payments had shown sizable swings over the past year or so; there was clearly a large element of reversible flows in the Japanese situation. There might also be certain advantages in a swap arrangement from the standpoint of providing an incentive for the Japanese to postpone purchases of gold; the Japanese gold-dollar ratio was only about 17 per cent. In these circumstances, he inquired whether the Committee would want to authorize negotiations looking toward a swap arrangement with the Bank of Japan as and when the Japanese yen moved to a point close enough to status of full convertibility to justify such an arrangement.

Mr. Coombs added that he saw certain advantages in entering into standby swap arrangements with Austria, Italy, and Japan fairly soon and then letting it be generally understood that the Federal Reserve had more or less completed the network of such arrangements. The three countries he had mentioned, along with those with whom swap arrangements were currently outstanding, fell into the category of important industrial countries. There seemed a relatively clean line of demarcation between them and other countries of the world.

Mr. Coombs pointed out that according to the Committee's continuing authority directive on System foreign currency operations, the total of foreign currencies held at any one time was not to exceed $750 million. (This maximum figure had been fixed by the Committee at the meeting on July 10, 1962.) He suggested that the Committee might want to consider increasing the $750 million figure to at least $900 million.

In this connection, Mr. Coombs said he was hopeful that the Bank of Canada might pay down its outstanding swap arrangement by some amount, since Canada was continuing to take in U. S. dollars at a heavy rate. On the other hand, during this particular season of the year the British might want to draw upon the outstanding sterling-dollar standby swap facility and/or to enlarge that facility. In addition, there was the possibility that the Federal Reserve might want to acquire quantities of certain foreign currencies outright, including Netherlands guilders.

Mr. Coombs likewise brought out that the authorization of the Open Market Committee to conduct negotiations looking toward a swap arrangement with the Austrian National Bank suggested the desirability of amending the Committee's continuing authority directive on foreign currency operations at this time by adding the Austrian schilling to the list of currencies that the New York Reserve Bank was authorized and directed to purchase and sell. If the Committee wished to consider the possibility of a swap facility with the Bank of Japan, it might also want to add the Japanese yen to the authorized list of currencies. In addition, consideration of swap arrangements with the Austrian National Bank or the Bank of Japan would suggest that the Board of Governors authorize the Federal Reserve Bank of New York to open and maintain accounts with such banks.

In a discussion of the items referred to by Mr. Coombs, Mr. Mitchell expressed the view that it would be inadvisable for the Open Market Committee to consider the possibility of entering into a swap agreement with the Bank of Japan in the absence of more adequate background information. Going beyond this particular case, he suggested that in advance of discussion by the Committee of other swaps that might be proposed in the future, it would be desirable for the staff to supply written documentation to assist the Committee in forming a judgment.

Mr. Young noted that there was a distinction between the Austrian and Japanese cases. The Austrians had met the conditions of convertibility of the International Monetary Fund, whereas the Japanese were only now going through that process. It might be some little time before the Japanese had met the convertibility conditions. Therefore, consideration of a possible swap arrangement with the Bank of Japan might well be deferred until the staff had provided the suggested documentation.

After further discussion, during which Mr. Coombs expressed agreement with the comments made by Mr. Young in regard to the Japanese matter, Chairman Martin expressed the view that Mr. Mitchell had raised a valid point on the matter of procedure. In the future, it would seem desirable if the staff could furnish, in advance of Committee discussion, background documentation along the lines suggested. This had been done in several instances in the past when swap agreements were under consideration.

With respect to the Committee's Guidelines, Mr. Mills suggested that the impression may have been left from the discussion today that the Guidelines were not fixed. He expressed doubt as to whether that was the judgment of the Open Market Committee when the Guidelines were approved on February 13, 1962. It was in order to bring up the question of possible relaxation of the Guidelines, but as matters stood he felt that the Guidelines had been intended by the Committee as a stricture in the handling of foreign currency operations.

Chairman Martin replied that this was why Mr. Mitchell had performed a service in pointing out that the Austrian swap was proposed on a basis that would constitute an exception to the Guidelines. If changes were to be made in the Guidelines, however, he felt that the question should be considered fully by the Open Market Committee.

Comments by other members of the Committee reflected an understanding that the Guidelines were not being changed at this time, that the proposed Austrian swap would be entered into on a basis that would constitute an exception to the Guidelines, and that further consideration might be given by the Committee at an appropriate time to whether the Guidelines should be formally amended.

There was unanimous agreement that consideration of the possibility of entering into a swap agreement with the Bank of Japan, as and when the situation with respect to the Japanese yen admitted that possibility, would await the furnishing of appropriate background documentation to the Open Market Committee.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the continuing authority directive to the Federal Reserve Bank of New York on System foreign currency operations was amended so as to authorize and direct the New York Reserve Bank, until otherwise directed by the Federal Open Market Committee, to execute transactions in the System Open Market Account in accordance with the following directive:

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

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

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

It was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, October 23, 1962.

The meeting then adjourned.

Ralph A. Young

Secretary.