

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, December 3, 1963, at 9:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Balderston
Mr. Bopp
Mr. Clay
Mr. Irons
Mr. Mills
Mr. Mitchell
Mr. Robertson
Mr. Scanlon
Mr. Shepardson

Messrs. Hickman, Wayne, Shuford, and Swan, Alternate Members of the Federal Open Market Committee

Messrs. Ellis and Deming, Presidents of the Federal Reserve Banks of Boston and Minneapolis, respectively

Mr. Young, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Hexter, Assistant General Counsel
Mr. Noyes, Economist

Messrs. Baughman, Brill, Eastburn, Furth, Garvy, Green, Holland, Koch, and Tow, Associate Economists

Mr. Stone, Manager, System Open Market Account
Mr. Coombs, Special Manager, System Open Market Account

Mr. Molony, Assistant to the Board of Governors
Mr. Cardon, Legislative Counsel, Board of Governors
Mr. Broida, Assistant Secretary, Board of Governors
Mr. Williams, Adviser, Division of Research and Statistics, Board of Governors
Mr. Yager, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Miss Eaton, Secretary, Office of the Secretary, Board of Governors

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Mr. Patterson, First Vice President, Federal Reserve Bank of Atlanta
Messrs. Mann, Ratchford, Taylor, Jones, Parsons, and Grove, Vice Presidents of the Federal Reserve Banks of Cleveland, Richmond, Atlanta, St. Louis, Minneapolis, and San Francisco, respectively
Mr. Eisenmenger, Director of Research, Federal Reserve Bank of Boston
Mr. Cooper, Manager, Securities Department, Federal Reserve Bank of New York

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on October 22, 1963, were approved.

Upon motion duly made and seconded, and by unanimous vote, the action of members of the Federal Open Market Committee on November 22, 1963, in approving increases of \$50 million each in reciprocal currency arrangements with the Swiss National Bank and the Bank for International Settlements, effective as of Monday, November 25, 1963, was approved, ratified, and confirmed.

Before this meeting there had been distributed to the members of 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 November 12 through November 27, 1963, together with a supplemental report covering November 28 through December 2, 1963. Copies of these reports have been placed in the files of the Committee.

Supplementing the written reports, Mr. Coombs stated that the Treasury gold stock would remain unchanged for the sixteenth week in a

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row. The Stabilization Fund now had on hand \$65 million of gold, which should be enough to meet demands for at least the next week or so. Over the past few months the Russian gold acquired by the Stabilization Fund had been quickly absorbed in purchases by the French, the Argentines, and the Austrians. In fact, on Thursday, November 21, the day before President Kennedy's assassination, the Stabilization Fund was out of gold completely, although there was in prospect a sizable distribution from the London Gold Pool early in December. To bridge the gap, the Federal Reserve Bank of New York arranged for the Treasury a gold swap with the Bank for International Settlements in the amount of \$30 million, which was paid into the Stabilization Fund on Friday, November 22. Consequently, it was possible to avoid a reduction in the gold stock on the following Wednesday. This gold swap would be reversed today, Mr. Coombs said, when the Stabilization Fund took delivery on the U. S. share of the Gold Pool's November acquisitions, amounting to \$68 million.

Mr. Coombs commented that temporary gold swaps with the Bank for International Settlements had proved to be another useful piece of machinery. There had been no idea that gold swaps would serve a purpose such as this when they first had been developed on an exploratory basis a year or so ago.

Over the past ten days, Mr. Coombs continued, the System's gross drawings on the swap network had built up still further. The

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Account was now in debt to the Swiss to the extent of \$150 million, the Dutch for \$80 million, the Germans for \$102 million, the Canadians for \$20 million, and the Belgians for \$10 million, making a gross total of \$362 million. The swap drawing with France was excluded from this accounting since it was fully covered by forward purchases of French francs. The Italians had drawn \$50 million, leaving the Account in a net debtor position of \$312 million. During the past three or four days, however, the Account had maintained its position pretty well in all currencies except the German mark.

Mr. Coombs thought German banks and industrial firms might make further efforts before the end of the year to improve their year-end balance sheet positions. There were a good many rumors, he said, about impaired liquidity positions of a number of German firms, and these firms were trying to protect themselves. This would tend to result in a flow of dollars to the Bundesbank and the Account might have to draw further on the German swap to mop up these dollars. On the other hand, the German Government might be making sizable payments in December for military procurement in the United States, possibly totaling as much as \$150 million. Part of these payments might be available for reducing some of the System's swap drawings. In any case, there was reason to expect a return flow of dollars from Germany after the year end; the present discount on the one-month mark indicated that forward cover was being sought for this purpose.

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In the case of the Swiss franc, Mr. Coombs continued, some further window dressing might also develop and some additional swap drawings in moderate volume might be required in consequence. He was hopeful, however, that in the Swiss as well as in the German case it would be possible to make steady progress in paying off the System's swap drawings after the turn of the year. He was even more hopeful that the Account could extricate itself after the year-end from its debtor position in Dutch guilders. It might be possible to repay the Canadian drawing in December, when the Canadian dollar generally tends to be weak. With respect to drawings by other central banks, Mr. Coombs thought that the Bank of Italy might make another sizable drawing during December. The Bank of England might also wish to draw on the swap line to help finance their heavy year-end debt payments to the U. S. and Canada.

Following this report, Mr. Coombs responded to questions by Mr. Ellis regarding certain recent operations of the Gold Pool.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the System Open Market Account transactions in foreign currencies during the period November 12 through December 2, 1963, were approved, ratified, and confirmed.

Mr. Coombs recommended a renewal on a 6-month basis of the existing \$50 million swap arrangement with the National Bank of Belgium,

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which had last been renewed on June 20, 1963, and which matured on December 20, 1963.

Renewal of the swap arrangement
with the National Bank of Belgium for
a further 6-month period was approved.

Mr. Coombs said that he thought the time had now come when the System might appropriately suggest to the Bank of France an increase in the swap line from \$100 million to \$150 million or, preferably, to \$200 million. As he had mentioned at the Committee meeting of November 12, 1963, there were recent indications that the French might be sympathetic to an increase, and he suspected that they might be even more sympathetic after the events of the past 10 days. He recommended that the Committee authorize negotiations with the Bank of France along those lines. If the negotiations were successful, he thought it would be desirable to announce them simultaneously with an announcement of the recent increases in the swap lines with the Bank for International Settlements and the Swiss National Bank. With an increase in the French swap line, he thought the swap network would be pretty well rounded out for the time being, both as to geographical coverage and in terms of over-all amounts.

Mr. Mills asked why the United States should make the advance in negotiating an increase in the French swap line. Given the state of relationships between the French Government and the United States Government, he thought it would be preferable to let the French make

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the advance. He saw no urgent reason for increasing the swap line; it was simply a matter of convenience and tidying up the arrangements. The whole tide of events as described today, he said, appeared to be moving rather rapidly to the point where foreign central banks would be drawing on the swap arrangements to strengthen their currencies.

In reply, Mr. Coombs commented that he hoped the tide would move in the direction indicated. The proposed negotiation, he added, was not between the French Government and the U. S. Government, but between the Federal Reserve and the Bank of France. The swap arrangements were divorced from politics.

Mr. Mills commented that the central banks were creatures of their governments, and he found it difficult to make a distinction.

Mr. Mills then asked whether the statement Mr. Coombs had made at the time the Japanese arrangement was entered into, to the effect that such an arrangement would round out the swap network, had been intended to imply that the arrangements would be complete only in a geographic sense, or also that they would be complete in terms of dollar amounts of individual swap lines. Mr. Coombs replied that he had meant complete in the geographic sense, and that he had left open the possibility of later recommendations for increases in individual swap lines.

Thereupon, negotiation of an increase in the swap line with the Bank of France from \$100 million to \$200 million was authorized.

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Mr. Coombs noted that earlier in the meeting the Committee had ratified the increases, effective November 25, of \$50 million each in the swap lines with the Swiss National Bank and the Bank for International Settlements. These increases raised the total amount of individually authorized lines from \$1.95 billion to \$2.05 billion. He recommended that a corresponding change be made in limit on the aggregate amount of foreign currencies held under reciprocal currency arrangements, as specified in the first paragraph of the Committee's continuing authority directive for foreign currency operations.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the continuing authority directive was amended as follows:

The Federal Reserve Bank of New York is authorized and directed to purchase and sell through spot transactions any or all of the following currencies in accordance with the Guidelines on System Foreign Currency Operations reaffirmed by the Federal Open Market Committee on March 5, 1963, as amended May 28, 1963; provided that the aggregate amount of foreign currencies held under reciprocal currency arrangements shall not exceed \$2.05 billion equivalent at any one time, and provided further that the aggregate amount of foreign currencies held as a result of outright purchases shall not exceed \$150 million equivalent at any one time:

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

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

- (a) purchases through forward transactions, for the purpose of allowing greater flexibility in covering commitments under reciprocal currency agreements;
- (b) purchases and sales through forward as well as spot transactions, for the purpose of utilizing its holdings of one currency for the settlement of commitments denominated in other currencies; and
- (c) purchases through spot transactions and sales through forward transactions, for the purpose of restraining short-term outflows of funds induced by arbitrage considerations.

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

Before this meeting there had been distributed to the members of the Committee a report from the Manager of the System Open Market Account covering open market operations in U. S. Government securities and bankers' acceptances for the period November 12 through November 27, 1963, together with a supplemental report covering the period November 28 through December 2, 1963. Copies of these reports have been placed in the files of the Committee.

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

In the first half of the period since the Committee's November 12 meeting--that is, in the week and a half prior to the assassination--the markets were enjoying an appreciable improvement in atmosphere from the heavy tone that had characterized the preceding several weeks. That tone was just beginning to brighten at about the time of the November 12 meeting following the sizable purchase of Treasury bills undertaken by the Trading Desk for various trust fund accounts on November 8. Soon afterward, the market drew added strength from the Treasury's November 13 announcement of a \$100 million reduction in the forthcoming 3-month bill issue in light of current international rate relationships, and from the publication of improved balance of payments data for the third quarter of 1963. In combination, these developments suggested to the market that international factors did not call for a further firming of credit policy or hardening of short-term rates and that the upward rate movement of earlier weeks may have been overdone. As the period progressed, sizable System purchases of bills to supply reserves cut down dealers' large inventories and added to the market's feeling of confidence. Under these influences, the bid rate on 3-month bills declined from 3.58 per cent on November 13 to 3.47 per cent by November 22. The 6-month bill was down from a high point of 3.69 per cent on November 12-13 to 3.64 per cent by November 22. In recent days both rates have undergone the customary seasonal rise, with the average issuing rates for 3- and 6-month bills at 3.59 and 3.67 per cent, respectively, in yesterday's auction.

The improvement in atmosphere that developed in the bill market also spread to coupon-bearing issues of all maturities as the lower prices that had emerged in recent weeks attracted moderate investor interest and as dealers sought to cover short positions in some issues. By November 22, prices of a number of intermediate- and longer-term Treasury issues were roughly 1/4 to 1/2 point higher than on November 8, and dealer positions had worked down to the point where they could no longer be regarded as unusually large. The new 18-month 3-7/8 per cent note, which was bid at a shade under par in when-issued trading

on November 8, climbed to a par bid by the November 15 payment date and was quoted slightly above par by November 22. Since that time prices have drifted slightly lower in relatively light activity.

The Committee of course knows of the splendid performance put on by the market both when the shattering news of the President's assassination was received and when the market reopened the following Tuesday. Among the major factors contributing to that kind of performance was a feeling that there was no reason for any marked change in financial values--or if there was, no one had any convictions as to the direction such a change should take. Another important factor was the relatively unruffled performance of the foreign exchange markets. I should like also to record a rather fundamental influence that underlay the calm atmosphere of the market on Tuesday, when the enormity of what had happened over the week-end was fully comprehended. This fundamental influence was a strong and active sense of individual responsibility on the part of virtually every participant in the market. Everyone, in those circumstances, sought to act constructively and to avoid any action that might have adverse effects on the market. Finally, the swift and smooth accession of Mr. Johnson to the presidency imparted a strong sense of continuity and contributed substantially to the calm and confident atmosphere that enveloped the market on that critical Tuesday.

Thereupon, upon motion duly made
and seconded, and by unanimous vote,
the open market transactions in
Government securities and bankers'
acceptances during the period November
12 through December 2, 1963, were
approved, ratified, and confirmed.

Mr. Stone then noted that he and Mr. Farrell, Director of the Board's Division of Bank Operations, had distributed a memorandum dated November 27, 1963 to the Committee on procedures with respect to allocations of the System Open Market Account. (Note: A copy of this memorandum has been placed in the files of the Committee.) The purpose was to call to the Committee's attention the fact that the procedure

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adopted by the Committee in September 1963 might result, over the next few weeks, in some Federal Reserve Bank or Banks incurring a reserve deficiency on days other than statement dates. He summarized three alternatives set forth in the memorandum that seemed to be available to the Committee.

Chairman Martin observed that the meeting scheduled for that afternoon between the Board of Governors and Federal Reserve Bank Presidents seemed to him to provide an appropriate opportunity to discuss this matter, and he asked Mr. Stone to be present at that meeting.

Secretary's Note: The discussion of this subject in the afternoon meeting between the Board of Governors and the Presidents of the Federal Reserve Banks is reported in the minutes of that meeting. As indicated in those minutes, the meeting of the Federal Open Market Committee was reconvened following this discussion. Upon motion duly made and seconded, and by unanimous vote, the procedures with respect to allocations of the System Open Market Account were revised, effective December 3, 1963, as follows:

1. Securities in the System Open Market Account shall be reallocated on the last business day of each statement week and of each month by means of adjustments proportionate to the adjustments that would have been required to equalize approximately the average combined reserve ratios of the 12 Federal Reserve Banks based on the most recent available five business days' reserve ratio figures.

2. The Board's staff shall calculate, in the morning of each business day, the reserve ratios of each Bank after

allowing for the indicated effects of the settlement of the Interdistrict Settlement Fund for the preceding day. If these calculations should disclose a deficiency in the reserve ratio of any Bank, the Board's staff shall inform the Manager of the System Open Market Account, who shall make a special adjustment as of the previous day to restore the combined reserve ratio of that Bank to the average of all the Banks or to such higher level as may be necessary to eliminate the deficiency in note or deposit reserves. However, such adjustments shall not be made beyond the point where a deficiency would be created at any other Bank. Such adjustments shall be offset against the participation of the Bank or Banks best able to absorb the additional amount or, at the discretion of the Manager, against the participation of the Federal Reserve Bank of New York. The Board's staff and the Bank or Banks concerned shall then be notified of the amounts involved and the Interdistrict Settlement Fund shall be closed after giving effect to the adjustments as of the preceding business day.

3. Until the next reallocation the Account shall be apportioned on the basis of the ratios determined in paragraph 1, after allowing for any adjustments as provided for in paragraph 2.

4. Profits and losses on the sale of securities from the Account shall be allocated on the day of delivery of the securities sold on the basis of each Bank's current holdings at the opening of business on that day.

Chairman Martin then called for the staff economic and financial reports, supplementing the written reports that had been distributed prior to the meeting, copies of which have been placed in the files of the Committee.

Mr. Noyes commented on economic conditions as follows:

Obviously the assassination of President Kennedy was an event of great economic as well as human and political significance. But it would be presumptuous at this point for me to even attempt to assess the longer range economic implications of the resulting changes in our national leadership. A few facts of economic significance about events of the last ten days may be noted. We have seen a rapid return

to normalcy in markets of all kinds. This suggests to me that there is some depth and resilience on both sides of both financial and product markets. Such a situation is certainly a healthy one, for which we can all be grateful. It encourages us to believe that the economy will continue to adjust rationally to economically significant developments as they actually transpire--whether they stem from private or public sources. In other words, it seems reasonable to conclude that the economy will respond to either stimulative or restraining changes in policy in the normal ways in which one would expect a free enterprise economy to adjust. Specifically, the behavior of markets during this crisis would seem to me to confirm that the response to any change in monetary policy at this time in either direction would be along the lines one would normally expect from such a policy change--not perverse or of an exaggerated magnitude.

We do not yet have enough information to measure the immediate economic impact of the President's death and the period of national mourning that followed. It is obvious that retail sales were adversely affected in both the weeks ending November 23d and 30th. The effect was probably large enough to cause sales for November as a whole to be below anticipated levels. This seems to be widely understood, however, and it is doubtful that the relatively poor showing will have much effect on business confidence when it is confirmed by the official figures in 10 days or so.

By and large, the additional data that have become available since the last meeting, almost all of which relates to October, tends to support the favorable appraisal of the outlook that is becoming more widely accepted as each day passes. Auto sales in the first 20 days of November were off a little, but are still at a high rate. Housing starts broke out on the high side in October--and even if they were attributable in large part to unusually favorable weather, it is hard not to be impressed by the fact that builders were prepared to start so many units in any kind of weather. Orders for steel continue strong, especially from the auto industry, but appliance and construction demand is also well maintained.

We have all said from time to time that price developments will bear close watching and we are watching them as closely as we know how. In the staff they have been intensively reviewed at both the domestic and international levels. There is no doubt that international commodity prices have strengthened, in part because of shortfalls in

output, especially in Iron Curtain countries. There is also no doubt that several important continental countries are confronted with serious internal inflationary developments. Further, it is clear that the net change in domestic prices, while very moderate on the average, is upward. The latest change in the consumer price index is described as largely seasonal, but it is up a little, as was the latest change in the wholesale prices. Firming seems to be the word that best characterizes recent price developments, and this firmer tone in the markets for their products has contributed to the more optimistic outlook of many businessmen. In fact, it is doubtful that we could have achieved the present levels of output and investment without some improvement in the price outlook, as viewed by the businessmen. The situation still does not seem to me to be one that can properly be characterized as inflationary, and expectations could shift rapidly, as they have during other recent winters.

This leads me directly to the one word of caution that seems appropriate at this time. No matter what we do to the figures by way of statistical adjustment, we cannot eliminate the actual seasonal midwinter decline in the pace of economic activity. Even though the seasonally adjusted figures continue to rise, we know that the actual rates of output and employment in some lines are almost certain to go down in January and February, and that these actual declines carry with them a lessening of confidence in the outlook, no matter how often we remind people that they are "only" seasonal. Therefore, any move toward lesser ease at this time is likely to coincide in the eyes of observers with the midwinter lull in general economic activity. There is some advantage in deferring any significant change in policy until we see how the economy, and the current wave of business optimism, survives the rigors of winter.

Mr. Koch made the following statement on financial developments:

I shall summarize briefly today recent financial developments and then talk a little about the course of some of the broad indicators of monetary policy since about midyear.

Domestic financial markets took the tragic news of President Kennedy's assassination fairly smoothly, very smoothly if one excludes the sharp decline of stock prices in a brief period on that fateful Friday afternoon and the sharp rebound on the following Tuesday. Since then, stock prices

have risen further, suggesting business and financial confidence in the new administration. The Government securities market performed very well, with retail selling small and with bond and bill yields both steady at levels somewhat below their highs for the current expansion.

Looking beyond the most immediate past, one of the most striking developments has been the marked pickup in business borrowing from banks. Such borrowing has averaged from a half to three-quarters of a billion dollars more than seasonal in each of the last three months. Outstanding real estate and consumer loans at banks have also experienced sharp further advances.

But with reserves less readily available, prior to November banks met their increased loan demands by reducing their Government security portfolios substantially. In November bank holdings of Governments increased, but perhaps temporarily due to new Treasury financing. Banks also are curtailing their acquisitions of municipal securities somewhat. This is a typical course of bank portfolio adjustments in a period of business expansion with lessened reserve availability.

Capital market financing by corporations and municipalities dropped off in November, but the new issue calendar for corporations in December will again be large, partly for seasonal reasons. Corporate and municipal bond yields, like Government yields, have changed little since the death of the President.

Money supply growth has continued at a rapid pace, approximating a billion dollars in the first half of November. This followed a rise of a similar amount in October. More recent data on required reserves behind private deposits suggest a further moderate rise in the money supply in the last half of November. Growth in time and savings deposits of individuals slackened a bit in November, reflecting in part earlier than usual withdrawals of Christmas Club accounts, but the larger banks continue to bid aggressively for certificate of deposit money from corporations.

As for bank reserve positions, they seem to have been under slightly less pressure than earlier. Free reserves, for example, have averaged about \$100 million recently, as compared with about \$50 million for a few weeks in October. Moreover, preliminary estimates of free reserves have generally been above final revised figures, and these early figures were probably a more accurate indicator of the money market conditions that actually prevailed than were the later

ones, which involved mainly increased required reserves at the country banks. Required reserves behind private deposits continue to average significantly above the guideline figures computed from a late July base. But this excess has developed in large part because of a sharp decline in Government deposits. Total reserves have increased at a seasonally adjusted annual rate of less than 1-1/2 per cent since midyear. Since borrowings are up over this period, nonborrowed reserves are actually down from midyear.

Let me now turn to the interrelationships among the various broad indicators of monetary policy, namely, bank reserves, bank credit, the money supply, and interest rates. The recent course of these indicators deserves separate attention, first, from midyear through October and, second, in November alone.

Growth in total reserves and in bank credit slackened markedly from midyear through October. Total loans and investments at commercial banks, for example, increased at a seasonally adjusted annual rate of 5-1/2 per cent over the three months ending with October, as compared with 7-1/2 per cent earlier in the year, and 9 per cent last year.

On the other hand, growth in required reserves behind private deposits and in the money supply picked up after July. The money supply increase averaged about 3-1/2 per cent on an annual rate basis over the three months ending with October, as compared with 3-1/4 per cent earlier in the year and 1-1/2 per cent in 1962. Interest rates continued a moderate upward trend through October.

How can these changes be reconciled? In the first place, the increased rate of rise in the narrowly defined money supply occurred despite the slackening in bank credit expansion. It reflected in the main sharply reduced U. S. Government deposits and a somewhat reduced rate of increase in time and savings deposits, neither of which are included in the money supply. The interest rate rise reflected the reduced rates of expansion in savings and in bank credit--with loans rising more than seasonally but with banks liquidating Governments contraseasonally. The rise also reflected expectations of higher rates and possibly a less easy monetary policy.

The relationships among bank reserves, bank credit, money and interest rates had to be different after October, if only because Government deposits had declined sharply to

a low level. If growth in the money supply were to continue at the pre-November rate, the expansion in total reserves and bank credit had to be larger, or time and savings deposit growth had to slacken markedly.

As we have seen, the course of the major monetary policy indicators did follow a more consistent course in November, with total reserves and bank credit expanding sharply along with the money supply. The main reason for this difference in November from earlier months seems to me to lie in Government financial behavior with Treasury balances no longer being drawn down and with new Federal financing, in part underwritten by the banks, on the rise. With monetary policy unchanged and in practice following a free reserve guide that put reserves into the market to preserve a relatively steady tone and feel of the money market, the larger over-all demands for bank financing and cash balances--on the part of the Treasury as well as the general public--were met without further upward pressure on interest rates. Contributing to this stability of rates was also the changed market expectations as to official attitudes about appropriate short-term rate levels.

Prior to November the reduced rate of expansion in total reserves and bank credit had led me to believe that perhaps a slightly easier monetary policy was appropriate. November developments suggest that some easing may actually have occurred. In any case, with the political and economic outlook still uncertain, recent developments suggest to me a course of watchful waiting, maintaining approximately the current monetary posture, at least until we can see how strong are the cyclical demands for bank credit and money after the seasonal forces shift from expansion to contraction after about Christmas. If these cyclical demands prove very strong and lead to financial excesses or upward price pressures, they will warrant curbing. If they are not strong and if the seasonal contraction is marked, additional monetary stimulation may well be called for.

Mr. Furth made the following statement on the balance of payments:

In the field of international finance, as in all others, developments during the past few weeks have been overshadowed by the death of President Kennedy and the advent of a new administration.

Until the third week of November, U. S. international payments seemed to present the same moderately encouraging

picture as during the third quarter and the month of October. The disappointingly large deficit for the week ending November 20--\$150 million--reportedly was in large measure due to window-dressing operations of a Canadian bank whose fiscal year ended on November 30; and the result for the following week--a deficit of \$90 million--obviously gives no clues as to the future.

In Continental Europe, moves toward tighter monetary policies contradicted statements made at the recent Working Party 3 meeting but nevertheless did not come unexpectedly. The tightening countries, France and Belgium, had large reserve gains but presumably more at the expense of other European countries than of the United States.

In the absence of material changes in the world economic situation, of which no signs are as yet visible, the future course of the U. S. payments balance will depend mainly upon future policy actions of the new U. S. administration and the market reactions to them. The decisive question obviously concerns possible departures of the new administration's policies from those of the Kennedy administration.

President Kennedy's policy line on international finance may be understood as a system of very gradual moves, aiming as much as possible toward economic expansion rather than restriction.

Thus, on non-Government current account, curtailment of imports was avoided and stress was laid on expansion of exports, not only through the traditional and not very effective methods of export promotion but also in two more basic ways. First, the administration supported the maintenance of conditions conducive to wage and price stability by exerting moral suasion on labor to avoid wage cost increases and on business to avoid price increases. President Kennedy's interventions in the railroad dispute this year and in the steel price move last year were the most conspicuous instances.

Second, the insistence on trade liberalization, expressed in the Trade Agreements Act and the forthcoming "Kennedy round" of tariff negotiations, was designed to improve the U. S. trade balance. Since U. S. exports greatly exceed U. S. imports, an equal percentage increase in both exports and imports would significantly raise our export surplus.

On Government account, stress was laid on avoiding reductions in total expenditures for military and economic aid--with rather minor exceptions for some defense outlays overseas. Instead, spending was deflected from foreign to

domestic recipients, thus simultaneously improving the payments balance and stimulating domestic production. This is the rationale of the increased preference for domestic suppliers of goods and services for the armed forces abroad, of the agreements for countervailing foreign purchases of U. S. armaments, and of the comprehensive tying of economic aid to exports of U. S. goods and services.

Finally, on non-Government capital account, the administration avoided direct capital controls and instead proposed to curb long-term outflows through the interest equalization tax. The tax would tend to make domestic placement of funds relatively more attractive than placement abroad, thus again combining the two goals of international and domestic policy.

The proposed tax cut was also expected to make domestic investment more attractive and in this way help to offset the deterioration on current account usually accompanying a faster rate of economic expansion. The most recent efforts at direct promotion of foreign investment in this country are designed to serve the same purpose.

The only nonexpansionary measure, the modest raising of short-term rates through debt management support of Federal Reserve actions, was so designed as to avoid any serious restrictive effect by minimizing as far as possible a rise in long-term rates or any reduction in the over-all availability of money and credit.

How far can the new administration be expected to follow those same lines? The first public messages of President Johnson reveal firm determination to abide by the principles that guided President Kennedy. This will exclude any radical innovation, such as explicit or implicit devaluation by means of changes in the dollar-gold relation or in the system of fixed par values, or any establishment of exchange controls or other direct restrictions on current or capital transactions.

But the new administration seems to put greater emphasis on curbing Government expenditures. It may therefore also take a firmer line on Government expenditures abroad, without abandoning either the defense of Europe and Asia, or the principle of international assistance to developing nations. Moreover, the new administration perhaps enjoys more goodwill with leaders of American business, and may therefore be better able to use its influence against price increases.

Labor, on the other hand, will perhaps be more critical of efforts to intervene in wage disputes, and the risk of crippling strikes may slightly increase.

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Foreign governments and markets apparently are reserving judgment. But if the new administration can hold the cost and price line at home, persuade the Congress to pass the income tax cut and the interest equalization tax, and reduce Government expenditures abroad--then foreigners will certainly continue their collaboration, limited as always by the real or imagined interests of their own countries.

In this situation, the relations of the Federal Reserve with foreign central banks are likely to be particularly important. The world knows that the management and the policies of the Federal Reserve will not suffer from discontinuity, whatever may happen in the Executive and the Legislative Branch. This assurance should serve to minimize difficulties in money and capital markets as well as in the attitudes and policies of foreign monetary authorities--as effectively as it did in November.

Chairman Martin then called for the usual go-around of comments and views on economic conditions and monetary policy beginning with Mr. Hayes, who presented the following statement:

Before trying to summarize my impressions of the current business and credit situation, I would emphasize that none of us can foresee all the consequences of President Kennedy's tragic death, and we would therefore do well, I think, to reserve judgment in some degree and await the unfolding of events. However, I do believe we can find much satisfaction in the calm and wisdom that seem to have characterized the political transition to date and in the widespread evidence of continuing optimism on the part of both businessmen and consumers. Also, we appear to have gotten by with a minimum of disturbance to the dollar's position abroad, thanks in part to prompt action on this side to enlist the aid of the principal foreign central banks and to their swift and wholehearted cooperation in holding rates firm.

Subject to the general reservation already mentioned, business prospects for the immediate months ahead continue to look strong. The more complete statistics now available for October bear out previous impressions of a distinct pick-up, with good gains in industrial production, employment, personal income, retail sales, new orders for durable goods and housing starts. Fragmentary data suggest that the

improvement was maintained in November. Expectations of good gains in business spending on plant and equipment are supported not only by the latest figures on capital appropriations but also by increasingly frequent comments by businessmen to the effect that practical capacity operation is being attained in a growing number of lines. The probability of passage of the tax bill at a relatively early date appears to have been enhanced, if anything, by the change in the Presidency.

It is clear that we are not yet out of the woods with respect to the balance of payments problem, despite the sharp improvement of the third quarter. November seems likely to show an uncomfortably large deficit, somewhat above that of October, with both months having been affected adversely by window-dressing activities of the Canadian banks. It is also possible that some of the term loan commitments reported this summer and fall are reflected in larger capital outflows in recent weeks. Since our last meeting, we have had further evidence, in the form of a discount rate increase by the Bank of France, that the serious inflationary trend in major European countries can be expected to bring credit restrictions despite these countries' desire not to invite an inflow of capital, particularly from the United States. We should also have in mind that the Federal Reserve is now a net user of the swaps to the extent of somewhat more than \$300 million, and it would be well to try to recoup a good portion of this in preparation for future crises.

Coming to the credit situation, I was struck at our last meeting by the wide divergence between two schools of thought as to the significance of credit data of the past year or so. Whereas some members of the Committee and staff feared that the recent growth of total reserves has been inadequate and that the banks are coming under excessive pressure as rising loan demands have forced them to dispose of investments, other members pointed to evidence that total bank credit has kept on growing at a surprisingly rapid pace despite our various moves toward less ease, that banks are still looking avidly for loans, and that over-all nonbank liquidity has risen rapidly without interruption.

I have taken a closer look than usual at the available credit statistics to try to assess these wide differences in interpretation. It seems to me that the case for inadequate total reserve growth has hinged too much on the data for a single month--October--when total bank credit did show only

weak expansion, partly reflecting the timing of prior Treasury financings and possibly also a sharp drop in Treasury deposits. A much stronger slowing would have been made if reserve growth through September had been considered, and partial data for November suggest a strong pick-up in credit expansion last month. Thus the case for a recent slowdown in bank credit growth cannot yet be considered as established, though it is possible that a slowdown is in the making--as might in fact be reasonably expected after successive System moves toward lesser ease.

It is also not clear whether the large excess in seasonally adjusted required reserves against private deposits above the Board's guideline during November can be regarded as an indication of quickening bank credit growth. In part, at least, it would seem to reflect an unusually sharp rise in reserves required against demand rather than time deposits. This could be an indication of a continuing shift in emphasis toward demand deposits that can occur as the economy gains momentum and that would imply larger reserve needs even if the rate of bank credit growth were to remain constant or to slow down somewhat.

The data do undoubtedly support the view that the composition of bank credit growth is changing, with increased business lending being accompanied by some net liquidation of governments, and perhaps by a somewhat reduced rate of purchase of municipals. As for bank liquidity positions, banks outside of New York appear to have suffered greater impairment of liquidity in the past year than have the New York City banks. Certainly the New York banks are still actively seeking loans both here and abroad. Money supply and total nonbank liquidity have grown more rapidly this year than last year--although the expected increase in Treasury deposits before the year-end may tend to dampen this trend.

The implications of all this for policy are not wholly clear. It would seem, however, that the focus of policy should be primarily on the effects of reserve changes as manifested in credit flows, credit market conditions and over-all liquidity rather than in recent changes in the rate of reserve growth. Cumulative bank credit expansion in this upswing has been far greater than that over corresponding periods of earlier business expansion. On the other hand,

we cannot judge the appropriateness of the rate of bank credit expansion solely in terms of past cyclical patterns; it must be assessed in the light of the strength and nature of the business expansion and the over-all credit and liquidity requirements of an economy moving toward fuller resource utilization. The change in composition of bank credit growth in recent months seems to me quite normal as the economy gains momentum. There is, however, some ground for caution in the fact that this gathering momentum could bring a rather substantial switch from time to demand deposits, with consequent pressure on credit markets and on the banks' willingness to lend and invest.

I am forced to conclude that we can better than ever afford to place major emphasis on the over-all feel of the credit and money markets and on measures of total credit expansion, and less emphasis on actual rates of reserve growth. For the immediate future it would seem well to maintain a steady policy while observing developments both at home and in our international payments. This would mean keeping the Federal funds rate steadily at 3-1/2 per cent and encouraging a 3-month bill rate close to the discount rate, with variations on either side. At this time of seasonal pressures, it might range as high as 3.60 per cent. The discount rate should not be changed, and I should think we could continue the directive as modified at our recent telephone meeting. I do think it not unlikely, however, that we shall sooner or later be forced by a continuing balance of payments problem, against a background of an improving domestic economy, to take further steps in the direction of greater credit restriction.

Mr. Ellis said that New England manufacturing output and employment continued a sidewise movement. The index of manufacturing output was up only 1 point in a year-to-year comparison. In the past year only one of the five major components of the index had showed any real growth--transportation equipment, which was up 7 per cent. This increase was largely offset in the total index by declines in other components. Total employment remained about unchanged, while manufacturing employment showed further weakness, being 2.5 per cent

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below a year earlier in October. Advance plans in October for new heavy construction were higher than a year ago. Cumulative starts for the first 10 months of the year showed a 9 per cent gain over a year ago, compared with a 3 per cent gain nationally.

In contrast to the United States pattern, Mr. Ellis continued, business loan demand in New England had risen less than seasonally in the past 2 months. There was a greater than seasonal spurt in demand deposits in November. District weekly reporting banks were on the selling side of the Federal funds market. The shifting to municipals had been at least temporarily reversed.

The change in the Administration appeared to have resulted in generally improved business expectations, Mr. Ellis said, with a feeling that the political climate would be more favorable to business. He thought that labor might press its demands more strongly than under the previous Administration, and that prices would firm.

Turning to monetary policy, Mr. Ellis observed that 10 days earlier there had been widespread confidence that business trends would be strongly up during the next 6 months. Business loans at banks and the money supply were expanding sharply, prices were firm, and business orders rising. The President's assassination caused everyone to review the situation again and to attempt to assess the economic significance of the tragedy. Mr. Ellis was inclined to agree that the business outlook had improved. Nevertheless, he thought it

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would be improper to make any change in monetary policy at this meeting, particularly since the next meeting was only two weeks away, and since there would be heavy seasonal needs for reserves before Christmas. It seemed easier to conclude that there should be no change in policy, Mr. Ellis continued, than to specify just what that conclusion implied. He advocated a "seasonally adjusted and cyclically adjusted no change." If market demands tended to push up interest rates in a customary seasonal rise, rates should be free to reflect these demands. To him, "no change" did not mean that Federal Reserve credit would be supplied in unlimited amounts to hold rates at present levels if strong and increasing demands by borrowers materialized.

As targets, Mr. Ellis said, he would suggest net free reserves below \$100 million, Federal funds consistently at 3-1/2 per cent, and the 90-day bill rate fluctuating above or below the discount rate. He would suggest no change in the discount rate at present, but he observed that the French action in raising their discount rate shortly after the last meeting of the Committee indicated their determination to use monetary policy in fighting inflation.

With respect to the directive, Mr. Ellis said that he would be inclined to delete the reference in the second paragraph to "cushioning any unsettlement that might arise in money markets stemming from the death of President Kennedy." He proposed including in the

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first paragraph a reference to the uncertainties resulting from the change in the Administration, because, as Mr. Noyes had indicated, this was an event of great economic significance.

Mr. Irons said that during October conditions in the Eleventh District were steady at a very high level, and the indications for the first two weeks of November were for continued economic strength. Data for the last part of November undoubtedly would show some slackening of activity in retail trade, industry, and other sectors as a result of the cessation of business for several days following the President's assassination. There were signs of a recent pick-up in retail trade, however, if one could judge by the crowds and parking problems in shopping centers. There seemed to be a beginning of interest in Christmas shopping. Automobile registrations were at a record high, and construction was very strong. Agricultural conditions had been improved by recent rains. On the whole, there was little new to report; it would be necessary to observe developments during the next four or five weeks.

Mr. Irons commented that loans, investments, and deposits at District banks recently were all up in fairly sizable amounts. The increase in bank loans was general among types of loans, and the rise in investments was mainly in holdings of Government securities. Time deposits also were up, but not so much as a year ago. Several District banks had been active buyers of Federal funds, Mr. Irons continued, and

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compared with the period 3 weeks earlier, District banks were borrowing more from the Federal Reserve Bank; they were swinging from moderate-to-low borrowing to substantial borrowing. There had been an increase in week-end borrowing, particularly by large city banks, who were coming in on Friday afternoon and going out on the following Monday or Tuesday, and this pushed the average borrowing figures up.

Nationally, Mr. Irons said, the economic picture was strong. Activity was not surging but the situation was probably healthier than if it were. He thought this was not a time to make any change in policy. He saw no strong reasons for a policy change, even apart from the recent tragedy. Interest rate relationships seemed reasonably satisfactory. He thought that seasonal requirements for reserves should be met, but reserves should not be provided to excess. Some increase in discounting might occur.

This was a period, Mr. Irons said, during which the Desk should give particular attention to the feel of the market. He had in mind pretty much the same statistical limits as Mr. Ellis had mentioned--free reserves in the zero to \$100 million range, the bill rate moving around 3-1/2 per cent but not too far above or below the level, and the Federal funds rate at 3-1/2 per cent. He would not change the discount rate at this time. As to the directive, he did not think any change was necessary unless the Committee wanted to take out the reference to President Kennedy's death. He would be reluctant

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to put in a clause referring to the change in Administration such as Mr. Ellis had suggested. The Committee might keep this in mind but he thought there was no place for it in the directive.

Mr. Swan said that economic activity in the Twelfth District continued to rise in October and presumably also in early November. As in the nation, there seemed to be no marked indications to date that reassessments of the last two weeks were likely to check the possibility of further gains. Total employment had increased in October, and for a change the increase was greater than that in labor force; the unemployment rate, seasonally adjusted, had declined by 0.1 per cent. Developments with respect to construction activity in October were mixed, with housing starts rising but construction employment down for the second month in a row. District manufacturing showed gains in October and seemed to have continued at a good pace in the first part of November.

With respect to banking developments, Mr. Swan reported that Twelfth District banks had shared in the rather large rise in loans that occurred in other parts of the country. Through November 20, weekly reporting banks showed a substantial loan increase, half of which was in business loans. Demand deposits had risen but time deposits declined primarily because of Christmas club payments. There was some indication of a slightly tighter reserve position, but no substantial change.

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With respect to policy, Mr. Swan said he concurred in the view already expressed that the Committee would not want to make any change at this time. He thought it was still necessary for the Committee to do what it could to see that the confidence reflected in the current situation was not affected adversely. The Committee would meet again in two weeks, and could assess the situation then.

Mr. Swan added that he also felt there was some problem in defining "no change." He thought the Committee would want to take care of seasonal demands between now and Christmas. But if seasonal factors were expected to have an effect in the market and no effort were made to offset them, this would amount to a change in policy. He preferred to avoid this course if possible. He also would want to avoid any possibility of inferences by the market of a shift to a tighter policy. While the bill rate might well fluctuate around the discount rate, Mr. Swan said, he would hope that it would not be above the discount rate for any sustained period of time. He would not change the directive. He agreed with Mr. Irons that the suggested change in the first paragraph was inappropriate, and preferred to retain the clause that had been inserted in the second paragraph relating to the President's death.

Mr. Deming said that in the business survey taken by the Minneapolis Bank in late November, mostly just before President Kennedy's death, there was little appreciable change in sentiment

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from earlier surveys this year dating back some months. Approximately two-thirds felt that business activity would continue to move ahead moderately in the weeks immediately ahead. However, a few reporters from the rural areas expressed some concern with lower cattle prices and their impact on farm incomes.

Personal incomes in the Ninth District were relatively strong in October, up from September and above October a year ago in about the same proportions as national figures. Bank debits continued to run substantially higher than a year ago. Construction activity was strong, and this seemed to be true also of over-all retail sales. District department store people were optimistic about prospective Christmas sales and brisk activity in car and farm machinery sales around the District had been reported to the Bank in recent weeks.

In general, Mr. Deming said, he would characterize the business trend in the Ninth District as roughly paralleling that of the nation--expansion with prospects for continued improvement in the weeks ahead.

In District banking, total bank credit expansion both in October and in the early weeks of November was approximately in line with the usual seasonal patterns. However, within that total, loans expanded above the usual seasonal pattern while investments were not quite so strong as usual. A major portion of the total loan advance was in commercial and industrial loans.

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Mr. Deming said he agreed with those who had suggested that there be no change in policy for the forthcoming two weeks; he thought this was the course of wisdom in the present situation. He also agreed with Mr. Irons with respect to the directive. He did not think it proper to insert a reference in the first paragraph to the change in Administration, and he thought the phrasing of the second paragraph was appropriate for implementing a policy of no change. He concurred in the guidelines Mr. Ellis had laid down, with this amendment: he would like to see the bill rate fluctuating around the 3-1/2 per cent discount rate, but not too far. He thought 3.60 might be too far on the upside.

Mr. Scanlon reported that economic activity in the Seventh District was continuing the gradual improvement he had reported at recent meetings. Confidence and moderate optimism were widespread and appeared to have been affected only momentarily by the assassination of President Kennedy and the transfer of executive responsibilities to President Johnson.

Capital expenditures were expected by midwest manufacturers of producers' durable goods to exceed the McGraw-Hill estimate of a 4 per cent rise for 1964. For example, the decline indicated by the survey for railroad equipment contrasted with an appreciable increase expected by industry sources.

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Total credit at weekly reporting banks in the Seventh District rose strongly in the first three weeks of November with both loans and investments participating in the rise. Business loans had continued to rise faster than in corresponding periods of other recent years.

On policy, Mr. Scanlon said he believed it was desirable to do everything possible to maintain an atmosphere of stability in the money markets in the next few weeks. To him, this would mean providing for meeting seasonal pressures. Like Mr. Irons and others, he would recommend no change in the directive and would not favor changing the discount rate.

Mr. Clay said that following a Governmental transition such as this country had experienced recently there would appear to be considerable merit in maintaining the general monetary posture unchanged unless circumstances dictated otherwise. In his opinion this view had merit despite the fact that the changeover had been made in a very orderly manner and there was no evidence that the course of economic and financial events had been altered.

Reviewing other considerations, Mr. Clay said, there seemed to be no compelling reason to change policy at this time. When the Committee last met developments in the credit markets were a matter of some concern, as interest rates had moved to a markedly higher level in the short-term area with upward pressure on interest rates throughout the maturity structure. However, subsequent developments altered that situation and interest rates receded somewhat.

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Thinking in terms of those later credit market developments rather than those existing at the time of the last meeting, Mr. Clay said, policy for the period ahead might appropriately continue essentially unchanged. Weighing the various factors in the international situation, present policy seemed satisfactory--with any injection of restraint and upward pressure on interest rates to be avoided. Sustaining economic growth in this country continued to require the assistance of public policy. In keeping with this view, the domestic situation also called for an avoidance of any reduction of reserve availability and upward pressure on interest rates. Rather, member bank reserves should be provided in sufficient volume to permit commercial bank credit to expand on a seasonally adjusted basis. So far as the 90-day Treasury bill rate was concerned, Mr. Clay said, it would be well to think of 3-1/2 per cent as about the upper end of the yield range. No change should be made in the discount rate, and the economic policy directive might appropriately be left in its present form.

Mr. Wayne reported that Fifth District business continued to expand, with October statistics quite good. All categories of non-farm employment except services advanced as did most categories of factory man-hours. Gains were particularly strong in textiles, apparel, transportation equipment, and primary metals. Bank debits remained close to September's record level, and coal production rose

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to the best levels of the year. Building permits slipped below the September all-time high but remained higher than in any other month. Current clues, Mr. Wayne said, suggested that November showed a similar rise. Department store sales rebounded after sagging in October, and rates of insured unemployment remained low. Respondents in the Reserve Bank's opinion survey displayed renewed optimism. On balance, they reported further gains in new orders, backlogs, shipments, wages, and prices but no rise in employment or hours. Construction firms were said to be working at or near capacity with wages and material prices tending upward. Flue-cured tobacco sales were still 9 per cent below last year's levels.

Mr. Wayne observed that since the present period of business expansion started in February 1961 the American economy had passed through five major periods of crisis. These were the abortive Cuban invasion, the building of the Berlin Wall, the stock market debacle of May 1962, the Cuban missile crisis, and now the death of the President. The fact that the economy surmounted these crises without panic, without any major emergency measures, and with little apparent effect on business activity could be taken as evidence of substantial basic strength and equilibrium. The final economic reaction to the latest crisis was, of course, yet to develop but the initial reaction of the financial markets tended to be reassuring.

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Before the events of November 22 the business picture was distinctly encouraging, Mr. Wayne continued. The increases in machine tool orders, housing starts, production and sale of automobiles, and personal income in October were outstanding. Lesser but significant advances were shown by orders for durable goods, industrial production, and total retail sales. With comparative stability in employment and unemployment in October and no major development of an unfavorable nature in October or the early part of November, Mr. Wayne said, this all added up to a picture of considerable business strength with moderate growth. If recent events did not cause any significant change in the trends, which seemed to be the best guess at present, then the outlook was for continuing strength and some improvement in the near future.

Mr. Wayne commented that the Committee's current policy and operating organization and procedures had been severely tested in the past two weeks, and all of them had come through the crisis with a highly creditable record. In his judgment the System could appropriately derive a modest but deep sense of accomplishment from this performance. In particular, Mr. Wayne said, the domestic and foreign Desks were to be commended for their alertness and their preparation for all eventualities. Before the crisis it had seemed to him that the Committee's policy was an appropriate one in view of the circumstances. The crisis apparently had caused no significant change in

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basic conditions, although such a change could develop later. In the meantime, any substantial change in monetary policy would be premature and could be misinterpreted, coming so early in the new Administration without any obvious justification. Also, the Committee would meet again in two weeks instead of the usual three and would then have a little better perspective on recent events. For these reasons, Mr. Wayne said, he would favor a continuation of recent policy, meaning by that the policy pursued week before last rather than last week. He believed, however, that in the current directive the Committee should continue the authority to the Desk to take appropriate action to cushion any unsettlement which might arise from the recent crisis, as was given in last week's special directive. Mr. Wayne thought no change in the discount rate seemed appropriate under present circumstances.

Mr. Mills said that in his opinion the purely seasonal expansionary developments in the supply of reserves and in bank credit that were now being experienced must be viewed in their true character as superficial and temporary, and they should not be permitted to obscure more basic factors. In his judgment, Mr. Mills said, a correct appraisal of these factors called for a less restrictive credit policy.

Mr. Mills then presented the following statement:

The change in the Administration of the Federal Government is in itself a good reason for relaxing the cumulative financial pressures resulting from a restrictive Federal Reserve System credit policy and for relieving at the same time the inevitable financial tensions that accompanied this tragic episode in our history. However, the rationale arguing for an easier policy goes beyond any connection with the assassination of President Kennedy and was outlined to this Committee in the comments I submitted both at its last regular meeting and at the special "telephone" meeting.

The reported understanding reached with foreign officials and governments that countervailing interest rate actions will not be taken to lift their domestic levels of interest rates significantly above those now prevailing in the United States, gives tacit assurance that the current objective of Federal Reserve System policy-making to mount an interest rate offensive against an outflow of gold and dollars can be modified. Accordingly, long past due attention can now be paid to domestic economic considerations without serious possibility that a more liberal provision of reserves to the commercial banking system will produce unwanted balance of payments repercussions in the field of competitive international interest rates.

Under all of these circumstances, it is desirable to increase the supply of reserves at the disposal of the commercial banking system so as to expand the availability of credit and, in so doing, also give a psychological stimulus to the financial community at a critical time. If the adoption of an easier credit policy should impair the efforts that have been made to strengthen the nation's adverse balance of payments defenses, I reiterate my previous statements to the Committee that recourse should be made to the imposition of selective controls over short- and long-term capital movements out of the United States, and that the Federal Reserve System should no longer be compelled to serve as the chosen policy instrument to combat our balance of payments difficulties in the various financial areas in which it has been operating to that end.

Speaking on the subject of controls, official aversion to the use of selective controls over capital movements abroad has been evinced as being contrary to the principle of a free capital market in the United States. Instead, an artificial interest rate structure has been constructed, ostensibly to help preserve that principle--all under the auspices of Federal Reserve System

and U. S. Treasury policy-making officials. In my opinion, a hard-handed control over interest rates and the U. S. Government securities market, is a far more reprehensible form of official financial control than the use of selective controls over outward capital movements because it strikes a blow at the very heart of a free financial market. I plead once again for a policy return to free market principles in the formulation and conduct of Federal Reserve System monetary and credit policy, which policy should include the resurrection of the 'bills only' policy of yesteryear.

Mr. Robertson made the following statement:

I have been deeply gratified by the way in which financial markets, both at home and abroad, have come through the tragic shock of the President's assassination. I appreciate that some part of that response is a credit to the well-timed action of the Committee's operating officers, and I should like to add my own note of commendation to them.

More broadly, I have been quite satisfied with financial developments throughout the three weeks since our last meeting. It seems to me there has been a little less tension evident in the money market, and I think that is as it should be. I think our own actions to supply reserves in timely fashion have been a constructive force here--along with the Treasury action to reduce pressure on the bill rate by cutting two bill auctions and permitting payment by 50 per cent tax and loan account credit for a third.

Recent bank loan expansion strikes me as an encouraging sign--particularly so since it has been accompanied by an improvement in general business indicators, by a persisting rough stability in wholesale and commodity price indexes, and by recent balance of payments figures that suggest we may be continuing, on a net basis, the sharply improved performance reported for the third quarter.

In these circumstances I would favor supplying sufficient reserves over the next two weeks to accommodate whatever may materialize in the way of private demands for money and bank loans. I think this is a particularly good rule to follow in the next two or three weeks of climactic seasonal pressures, for the exact dimensions of such demands cannot be forecast precisely, and we only create needless disruption of financial processes if we instigate counter pressures against what turn out to be purely temporary or seasonal bulges in market demands.

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I would remind the Committee that both last year and the year before we acted at the last meeting of the year to tighten policy in the face of what appeared to be an upswing in credit demand, only to see the upswing abate after the turn of the year. This time we should wait, to be sure a similar pattern is not ahead of us this year, before trying to adapt our policy to what we assume 1964 will bring.

The policy I have in mind would not call for any change in the Committee directive, apart from dropping the phraseology concerning President Kennedy's death that was adopted at the special telephone meeting last week.

Mr. Shepardson said that the general economic outlook seemed to him to be encouraging. The change in Government after the tragedy had been accomplished with unusual calm. At this season of the year the Committee would expect to supply needed seasonal reserves, and he thought that could be accomplished with existing policy.

As to the directive, Mr. Shepardson said that the phrase regarding the death of President Kennedy conceivably could be eliminated. On the other hand, only a short time had elapsed and with another meeting scheduled in two weeks he thought the Committee might leave the directive as it was. He concurred in the guidelines suggested by Mr. Ellis.

Mr. Mitchell said he agreed that this was not a time for the Committee to make a change in its policy. However, the question was whether this implied no change in bill rates or in bank reserves. The Treasury's monetary policy appeared to be aimed at a bill rate peg, and this evidently was what the market expected the Committee's policy to be. While he did not think the Committee's policy had to be the same as the Treasury's, it would be helpful if it were.

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Mr. Mitchell said he did not care much for the peg and he would be happy to join with those people at the table who were prepared to let the bill rate fluctuate, if they would take the same position in January when the bill rate would be tending downward. This would be the most wholesome position for the Committee to adopt, Mr. Mitchell said, but he was practical enough to realize that the Committee could not get too far away from the Treasury's policy.

Mr. Mitchell said he had a feeling of apprehension about the projected role of monetary policy. It seemed to him that everyone agreed that it would be all right to cut taxes to achieve fuller resource utilization, but there were quite a few people who thought it improper to use monetary policy to this end. Some members of the Committee seemed ready to move towards credit restraint as soon as there was evidence of growth, long before a satisfactory rate of resource utilization had been achieved. In Mr. Mitchell's judgment the economy was not ready for a policy of restraint, and the Committee should not use monetary policy to prevent the economy from achieving the goal set for fiscal policy unless there was very strong reason for doing so.

Mr. Hickman said his thought was that the tragedy of November 22 had not changed the economic outlook significantly, either domestically or internationally. However, the reaction of consumers and businessmen had been such that economic developments in November would

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be more difficult than usual to measure and appraise. The unusual holiday and some part-time operations immediately following the event were likely to produce widely varying effects on statistical series, depending upon the way in which the particular series was adjusted for working days. It would, therefore, be difficult for the Committee to interpret information on current developments until well after the turn of the year.

For this reason, Mr. Hickman said, it was all the more important for the Committee to turn back to the situation as it was revealed in the data through mid-November. On the basis of that evidence, the present configuration of business was such that the main danger--to the extent that there was one--stemmed not from feebleness of demand but from developing exuberance. The flow of business news showed clearly that one after another of the areas of doubt or weakness had simply melted away.

A good illustration was provided by manufacturers' new orders, Mr. Hickman said. The preliminary report for October for durable goods showed further advance to the level of last April's position, prior to the steel retrenchment. Current orders for machine tools were especially strong, particularly for cutting tools, which is the major component of this series. New orders of steel producers reporting directly to the Cleveland Federal Reserve Bank on a confidential basis were more robust than had been anticipated just three weeks ago.

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Construction activity and housing starts provided additional evidence of strength. Housing starts in October were up 8 per cent from September and 22 per cent from a year ago, an impressive showing despite the well-known volatility of this series. Retail sales provided still another instance of unusual strength. Despite the uncertainties of early Fall and the poor showing of department store sales in October, the October figures for total retail sales reached a new record, and reports for November prior to the national tragedy were especially strong. Even the Fourth District problem industry, bituminous coal, had shown signs of increased activity in recent months. Reports on corporate profits for both the second and third quarters were considerably stronger than in other recent calendar quarters. Soft spots in the economy were almost impossible to find although high unemployment remained an unsolved problem.

In view of the solidity of the business expansion a tax cut enactment could conceivably produce a reinforced stimulus, Mr. Hickman said, which in turn could provide a serious problem of short-term balance. Such a possibility was by no means so remote as it seemed a short time ago.

Mr. Hickman felt that because of the upward thrust of the economy and the uncertainties of statistical measures monetary policy would be most difficult to formulate over the next two months. Clearly, no change was indicated at the moment, he said, but the

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Committee should be continuously alert to the possibility of moving from its present position to one of outright restraint. For the next two weeks, Mr. Hickman continued, he would like to see the Federal funds rate at 3-1/2 per cent all of the time, and the bill rate at the same level or slightly higher. He would prefer to achieve the bill rate objective by a lower level of free reserves than had obtained since the last meeting rather than by Treasury intervention in the money market and Desk operations in the bond market. To achieve this, he judged that it might be necessary to allow free reserves to go below \$50 million, which would not be undesirable in view of general business and bank loan demand. The System should feel gratified about the manner in which the recent potential crisis was handled by those responsible for the management of its domestic and foreign accounts, he concluded.

Mr. Bopp said that labor force measures for the Third District recently had been performing somewhat better than other indicators of economic activity. Labor demand appeared to be holding at fairly satisfactory levels, but manufacturing output and employment were not and sales at department stores were lagging badly.

Continuing tightness characterized Third District banking. The basic reserve deficit of reserve city banks set a new recent-year record; and in the week of November 20 borrowing by reserve city banks reached the highest level of 1962 or 1963. Country bank borrowing since the last Committee meeting also had been on an uptrend.

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For the next three weeks, Mr. Bopp continued, policy should be directed toward maintaining a tone of steadiness and stability in the money and credit markets and in the foreign exchange market. The transition to a new Administration seemed to have been made smoothly but had naturally resulted in some uncertainties as to future trends. He would supply reserves as necessary to meet seasonal demand and to avoid any reduction in the availability of bank credit. He would suggest no change in the discount rate, and no change in the directive except to delete the reference to the death of President Kennedy.

Mr. Patterson reported that there apparently had been no let-down in the economic expansion nor in the growth of bank credit that had been characteristic of the Sixth District during the preceding months of 1963. So far, there was little, if any, evidence that the events connected with the President's assassination had altered the existing economic trends.

Personal income for the first three quarters of 1963 in each of the Sixth District States had increased at a greater rate from 1962 than that of the nation as a whole, according to estimates made by the Atlanta Bank's Research Department. The final income figures for the year probably would show an even higher rate of increase for the year 1963 than the 7.4 per cent increase for the first three quarters in 1963 partly because of the especially favorable farm situation. In

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October and November, cotton harvests were exceptionally large and currently large harvests of corn, soybeans, and sugar cane were being marketed at favorable prices. Manufacturing activity also continued to expand.

About the only factor offsetting these elements of income growth had been a weakening in construction employment in certain parts of the District. In Mississippi, construction employment had been falling for the past 6 months largely because of the completion of a large oil refinery at Pascagoula whose construction had utilized approximately 3,000 construction workers for about 2 years. Although production at the refinery, with a capacity to utilize 100,000 barrels of crude oil per day from offshore Louisiana wells, began in October, only 350 workers would be regularly employed. Construction employment also was weak in Florida, but there were increases in Louisiana and Tennessee.

Against this background of expanding income, Mr. Patterson said, consumer spending had been strong. Automobile sales had been at a record high, and this had been reflected in an expansion of consumer instalment credit.

Bank credit, according to preliminary estimates, increased more than seasonally through the first three weeks of November. Total deposits also expanded correspondingly, although most of the deposit increase was concentrated in demand deposits. Business loans at the weekly reporting banks in leading cities increased substantially.

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Demand for nonbank credit also continued to be large. For example, well over \$120 million in municipal securities were sold by State and local governmental units during October. The major part of the securities were to finance public housing--45 per cent--and for highway construction--25 per cent.

In an effort to determine the response of consumers and businessmen to the upsetting events of the preceding week, the Bank's Research Department staff had made a spot survey late last week. The responses indicated that there was little immediate effect that could be discerned, but that uncertainty had been introduced into the current economic and financial scene.

Department stores had, of course, experienced slow sales over the week-end and automobile dealers had been adversely affected. Sales, however, had rebounded by Tuesday or Wednesday. Bankers reported that business was being carried on as usual; loans in process Friday appeared to be going through, and there were no significant changes in deposit withdrawals that could be related to the tragedy. Mortgage bankers and savings and loan officials reported no cancellation of mortgage plans, nor increased withdrawals. Security dealers and brokers reported that the disturbances in the securities market that started Friday seemed to be a signal for a greater number of persons to try to enter the market when the exchanges were opened on Tuesday.

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The respondents, Mr. Patterson said, emphasized that valid assessment of the long-run effects could not be made now. However, some of them believed that long-run spending plans and credit demands would be affected in the future. Their inability to specify just what these effects would be or how they would materialize suggested that the uneasiness that existed could be dispelled fairly quickly if economic conditions continued to be "normal." On the other hand, the replies suggested that there might develop a tendency to relate future unfavorable economic developments to the assassination and the subsequent events even when such relationship did not exist.

Mr. Shuford said that while the expansion in business activity in the Eighth District had moderated this fall, the District had experienced a substantial improvement over the year as a whole. Bank debits had continued to rise since mid-summer, but employment and industrial use of electric power had changed little.

Business loans at weekly reporting banks in the District had risen 8 per cent more than seasonally since mid-year, Mr. Shuford observed. The largest net borrowers had been food processors and commodity dealers seeking funds to finance the marketing and processing of the large crops this year. Despite strong credit demands, member bank reserve positions had remained comfortable. Borrowings from the Federal Reserve Bank had been relatively small and District banks had been net sellers of Federal funds on most days.

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The Eighth District agricultural situation was good, and crops were unusually large. Recent estimates for major crops pointed to a significant increase in farm income in the last part of the year. Corn production was estimated to be up 13 per cent, soybeans 4 per cent, rice 14 per cent, tobacco 3 per cent, and cotton 13 per cent. The marketings of these crops were already having an expansionary impact on country bank deposits in the District.

With respect to policy, Mr. Shuford said he favored no change for the reasons already mentioned by others. In view of the recent change in the Executive Branch, he agreed that at this time the Committee should maintain about the same position that had prevailed for the last few weeks unless there was some strong reason for making a change, and he saw no such reason. He would subscribe to the views of Mr. Irons and others with respect to continuing to supply seasonal needs for reserves and with respect to a short-term rate fluctuating around 3-1/2 per cent. While he felt a bill rate at this level would be appropriate, he would not be discouraged if it went up a bit above 3-1/2 per cent for a short period of time during the remainder of the year in view of the seasonal situation. By the same reasoning, he would not be disturbed if the bill rate declined after the turn of the year. Mr. Shuford favored no change in policy and no change in the discount rate. He preferred to leave the directive as it was for the next two weeks because he thought the Committee would have some difficulty in trying to improve it.

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Mr. Balderston said that he would favor continuation of current policy until the next meeting and would leave the directive unchanged. In trying to appraise the impact of the recent substantial shift of demand deposits from the Treasury to the private sector, he continued, he had become less disturbed about the current up-sweep in the rate of increase of money supply growth. To avoid being misled by deposit shifts he had examined figures for the year 1963 to date. The annual rate of growth in the money supply so far this year was 4 per cent, a substantial rate. But personal incomes were up over 5 per cent, the industrial production index 6 per cent, and constant price GNP 4 per cent. Thinking about the near future, he recalled that deposit turnover had risen 7.7 per cent, and average hourly earnings had risen 3 per cent despite the nationwide concern with keeping our economy competitive. State and local government bond sales were up 5 per cent, and seasonally adjusted housing starts had risen by more than 20 per cent.

Mr. Balderston observed that he had found only one weakness-- a drop in net realized income of farmers for the second year in a row, this time of 5 per cent. He suggested that after the turn of the year the Committee would want to make a searching appraisal of what had happened and what was likely to happen.

Chairman Martin said that he had little to add to the discussion. He wanted to join in commending the foreign exchange and open

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market Desks for their performance in the period just past; it seemed to him that the System had performed well, and he believed that this was generally recognized.

Although he did not think the matter was of great importance, the Chairman continued, he personally felt that it was not necessary to delete the phrase relating to the death of the President from the directive, particularly since only a short time had elapsed. The Committee would meet again in two weeks and that might be a good time to delete the phrase. But he had no objection to doing so at this meeting if that was the preference of the Committee.

On the broad question of policy, the Chairman said, he had one comment to make with respect to the apprehensions that Mr. Mitchell had expressed, namely, that those Committee members who were talking about a firmer policy from time to time were not talking about restraining the economy but sustaining it. There could, of course, be disagreement on how to achieve this objective, but the problem was one of possibly having too much credit available at various times.

The Chairman then suggested that the Committee vote on a proposal that there should be no change in policy and no change in the directive.

All members of the Committee except Mr. Mills indicated that they favored no change in policy for the forthcoming two weeks.

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 execute transactions in the System Account in accordance with the following current economic policy directive:

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

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

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

In connection with his favorable vote on the directive Mr. Hayes observed that he agreed with the Chairman that while the matter was not too important it was desirable to retain the phrase relating to the President's death since the money and securities markets were still in quite a sensitive condition.

Mr. Mills said he had dissented both on the consensus favoring no policy change and on the directive for the reasons he had set forth in his comments earlier in the meeting. Reverting to the Chairman's remarks about sustaining the economy, he observed that to him this meant giving the economy sustenance by providing additional reserves.

In response to a question by the Chairman, Mr. Stone indicated that he did not think any change was necessary in the Committee's continuing authority directive with respect to the \$1 billion limitation on the change in the aggregate amount of U. S. Government securities held in the System Open Market Account during any period between meetings of the Committee.

Chairman Martin noted that a request had been received from Congressman Patman for lists of the names of individuals who had attended the last three meetings of the Committee. It was his view that this request should be complied with. He asked if there were any objections to doing so, and no objections were expressed.

Mr. Mills said that in connection with this subject he would like to note that a large number of persons attended Committee meetings. He thought some might share his concern about such events as the publication in Sylvia Porter's letter giving the hour and time of the Open Market Committee's recent telephone meeting. The Chairman observed that Miss Porter had also reported another Committee meeting

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which had not actually been held, indicating that her information was not completely accurate. However, he continued, he shared Mr. Mills' concern and he believed it behooved all of those present to be very careful about what was said outside the room.

Chairman Martin then suggested that the Committee discuss possible publication of its minutes for some past period. He noted that a memorandum on this subject from Messrs. Young and Sherman, dated September 28, 1963, had been distributed to the Committee. He recognized there were a great many conflicting points of view on this matter. He would simply say at the outset that his own judgment had not changed; he felt that if the Committee could find some suitable means of releasing the minutes for 1951-1960 it would be a worthwhile way of making public information on how the Committee operated. He realized that releasing these minutes could make some problems for the Committee. But the more he lived with this subject the more convinced he became that a great many people misunderstood the nature and the conduct of the Committee's meetings. Publication of the minutes would not completely dispel such misunderstanding, but it would give a better basis for understanding than was now available in published materials. He doubted that the minutes could get much public attention--the general public probably would not be greatly interested. But he felt it was important to clarify the decision-making process of the Committee. He thought it should be made clear that consideration was given to many

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factors affecting monetary policy, and that this was not a one-man operation, but that differing views were expressed and the decisions taken were general decisions. Making the minutes available seemed to him the best way of giving insight into the conduct of the meetings and into the detailed nature of the views expressed.

The Chairman commented that the particular dates for which minutes were released did not seem to be a vital matter. The 1951-1960 period he had mentioned was important in the Committee's history and embraced the Treasury-Federal Reserve Accord. The year 1960 seemed a good terminal point; the minutes for that year had already been made available to the Joint Economic Committee.

Mr. Hayes said that he was reluctant to differ because he thought the Chairman had a better feel than he for the reality of the demand for this kind of information. But the more he had thought about the subject the more he had tended to feel that the Committee would do well not to give the minutes out. He was not quite sure why this was the time at which the Committee should do so; nothing had happened to suggest the desirability of now changing past policy on the matter. The Committee had given the 1960 minutes to a Congressional Committee, but it also had objected to the publication of excerpts from these minutes. The point had been made that the public deserved more understanding of Federal Reserve operations. He recognized the truth of this statement, but he was not sure that publication of the minutes

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would be the most effective way of giving the desired understanding. There were other mechanisms; more frequent statements of the nature of policy, to his mind, would be more enlightening than making the minutes public. He did not think the minutes would add a great deal to what was already publicly known.

If the minutes were published, Mr. Hayes continued, he thought it should be only with a considerable time lag. He was concerned that if publication was once started there would be agitation for reducing the lag and a tendency to do so. He thought there always would be advocates for the Committee's releasing everything, including statements of actions on the day they were taken. But in his judgment a central bank could not operate that way. It seemed to Mr. Hayes that the principles still held that Chairman Martin had outlined in his letter to Mr. Patman of last year, in which the Chairman had explained why the Committee's internal deliberations were not matters of public concern.

There were dangers of embarrassment, Mr. Hayes said, in connection with the Committee's discussions of dealings with central banks abroad. And there was the further question of whether the possibility of publication of the minutes might inhibit discussion at meetings, although he was not too concerned on this score because he had confidence in the integrity of the people around the table. On

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balance, unless the Committee felt there was overwhelming political pressure to make the minutes available, he leaned toward not publishing them.

Chairman Martin said that he would like to emphasize that there had been no pressure on this subject. The question of whether this was an appropriate time to publish the minutes was within the Committee's discretion; no commitments had been made.

Mr. Ellis said that he agreed the Committee should give more rather than less information to scholars. He was enthusiastically in favor of making available more complete descriptions of policy, because he thought there was a legitimate need for such descriptions by scholars and others. At the same time, he felt that scholars should be provided with a complete rationale of the use of all policy instruments, including discount rate and reserve requirement changes as well as open market operations. Because he had this objective in mind, he thought the Committee would do itself a disservice if it released Open Market Committee minutes. A true scholar would be frustrated by omissions from these minutes of much of the complete policy record. Also, publication of some past minutes would place the Federal Reserve on the defensive with respect to such questions as why not publish the minutes on a current basis, and why not publish the minutes of the Board of Governors concerning other aspects of monetary policy.

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Prospect of publication might also raise questions within the Committee with respect to the amount of detail that should be included in the minutes.

Mr. Ellis thought the Committee might be deceiving itself if it felt it could win supporters for the System by this means. The record would still be incomplete; potential defenders of the System were apt to sit back, and attackers would find more ammunition to use against the System.

In the long run, Mr. Ellis said, almost any written material might appropriately become public information. If the Committee decided to publish the minutes he would urge a longer lag than 3 years. He did not mean to be wholly negative on the issue; his intent was to suggest that the Committee direct its efforts to the goal of providing a more complete rationale of System policy actions.

Mr. Krons said that he had swung back and forth in his thinking on this subject. He believed the Committee had to distinguish between the submission of minutes to Congress and their general publication. He suspected the Committee would have to submit its minutes to Congress if the demand was pressed. He thought there was a gradual erosion in process with respect to supplying materials to critics. Whatever they were given would leave them unhappy; if they were supplied with minutes after a 10-year lag they would want them with a 5-year lag, and so forth. This gradual erosion of the central bank's

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position was going on in a lot of other areas and this should be kept in mind.

If the Committee did publish the minutes, Mr. Irons continued, they would not be a best seller. The public generally was not interested in this sort of reading material, and the minutes would have only limited use. If both Congress and the general public were excluded from consideration there would not be too many readers left, except the group of academicians who like to pore through such material. The question then was whether satisfaction of this group warranted publication. Even to a scholar the minutes would become pretty dull after he had read them for a year or so. Mr. Irons said he was not being critical of the minutes, but those for successive meetings inevitably involved a great deal of repetition. Another problem was that the minutes by no means reflected fully the work, thought, and general preparation that lay behind them. This raised the question of whether supporting memoranda and other Committee materials should be made publicly available to give a complete picture. Publication of the minutes was a first step that could lead to requests for other policy records, such as the minutes of the meetings of the Federal Reserve Bank directors regarding discount rate actions, those of the Board of Governors regarding approval of such actions, and so forth.

Mr. Irons said that he realized that he was being pretty negative in his comments, and he wondered if there were alternatives

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to the release of Committee minutes. For example, would it be possible to employ some capable person whose intellectual honesty was unquestioned to author a set of volumes on the history of the Federal Reserve System, giving him access to the minutes and other materials? Choice of such a person would always be open to criticism, but the possibility was worth giving some thought to.

If the Committee decided to release the minutes in some form or other, Mr. Irons said, he would suggest doing so on a limited basis. Perhaps a copy or two could be put on the shelves of each Federal Reserve Bank library for use of scholars. For such a purpose the 1951-1960 period would be excellent. It represented a 10-year period from the date of the Accord, and the gap from 1960 to date was good. He did not think that this would solve the problem, however. The Committee undoubtedly would be criticized for not making minutes for the last two years available.

Mr. Swan said that he was in substantial agreement with the opinions already expressed. He thought that reasonably current explanations of policy and descriptions of the Committee's processes and procedures were desirable goals, and he noted that some progress towards them had already been made. However, he doubted that publication of the minutes would help to accomplish those ends. It would put the Committee on the defensive because the minutes would be used

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primarily by System critics. There would be pressure for more and more current release. In Mr. Swan's judgment 3-5 years was too short a lag.

On the other hand, Mr. Swan said, there was a legitimate question of whether such information was ever to be made available. The System might want to face this question in terms of the possibility of releasing Open Market Committee and perhaps Board minutes on suitable occasions with a very long time lag. Surely, Mr. Swan said, after a period as long as 20 to 25 years such records were strictly historical documents. It could thus be recognized that in due course these materials would be made available to people with a legitimate interest. To go beyond such a procedure would create many more problems than it would solve. However, the Committee should be considering doing something in terms of articles on a continuing basis.

Mr. Deming said that he had been thinking on the same lines as Mr. Irons. He felt that for a variety of reasons it would be well to attempt to get some assistance in writing a System history. It should be possible to work out a procedure that would provide an objective set of histories and under which the System would be protected against charges of self-interest. Perhaps the professional societies might be asked to select scholars for the work and foundations asked to provide funds. The System could then make records available to such scholars as were selected, up almost to a current

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date. This would be a monumental and time-consuming task, Mr. Deming said, but it might be broken down into separate economic, political, and social histories of the System.

With respect to the minutes of the Open Market Committee and other policy-making bodies of the System, Mr. Deming continued, rather than publication he would favor their deposit in various places after a time lag of a decade or more; at the present time he would suggest a cut-off at 1950. He saw no reason for the System to make its records generally available all over the United States, but their deposit in Federal Reserve libraries would be appropriate. On the other hand, he would give scholars designated to write a history access to all materials almost up to the present. He thought it was valid to say that the great mass of people--including academicians--do not understand how the System functions but he also thought they would be helped more by a series of histories than by such raw materials as the minutes. He had in mind very detailed histories, not works of 100 pages or so.

With respect to the distinction between making materials available to the general public and to the Congress, Mr. Deming said, he did not know whether the System was required to supply detailed minutes of the Open Market Committee or the Board or other System groups to Congress, but he hoped it was not, at least not without a specific legislative change. He thought the answer to this question

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was not clear, and the Committee should resist such submission as long as it possibly could on all the grounds that had already been mentioned. He felt it was not a negative approach for the System to keep its current minutes reasonably confidential but to throw open its records to scholars competent to write System history.

Mr. Scanlon said he fully agreed that a better understanding was needed of the Committee's operations and problems. He also shared Mr. Irons' view that the questions of responding to Congressional requests for the minutes and of making them publicly available were separate. Unlike Mr. Deming, he thought the Committee had no choice with respect to meeting Congressional requests; it would have to make the records available by some means if asked. As to supplying information to the public, Mr. Scanlon said, he doubted that the minutes as now prepared were a good vehicle for the purpose. They were incomplete in that they did not include the memoranda, the daily wires, and all of the other materials that the Committee considered in preparing to make its decisions. They also would appear highly redundant to readers. He would hope for a better vehicle for getting information to the public. A history of the System might be useful, or perhaps some kind of an annual report with a time lag of about 5 years. He would be willing to give a little on the time lag. If a decision were made to release the minutes to the public, he would favor limiting the distribution of copies to Federal Reserve Bank

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libraries and National Archives. He did not think it would be desirable to spend a lot of money to make wide public distribution.

Mr. Clay expressed the view that publication of the minutes as soon as 3 years after the meetings might well result in an unconscious speaking for the record by participants and would change the nature of the meetings in an undesirable way. He did not consider the minutes a very good public relations document; it would be difficult to get useful information from them regarding the nature of System operations. He thought that the Chairman's letter of last year to Mr. Patman gave very good reasons for withholding the minutes. This letter, in fact, was a better public relations document than the minutes, because it portrayed an organization capable of withstanding pressure. Such an organization was desired by everyone, whatever their policy views.

The longer the time lag before publication, Mr. Clay continued, the less effect there would be on the nature of the meetings; but also the greater would be the reduction in the public relations value of the minutes. If the Committee decided to publish the minutes, Mr. Clay favored a limited edition with a lag of at least 5 years. He thought publication would best be at a time when there was no outside pressure for it. The present was a good time, since there was no pressure on the Committee now.

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Mr. Wayne said that the Committee was a public body charged with public responsibility, and accordingly, he thought that the official records of its deliberations were properly viewed as public documents. He was not considering the matter in terms of public relations at all; as historical documents the minutes should be made available to competent historians. He was prepared to concede the desirability of a time lag in publication, and recognized that there would be pressure to reduce the lag. Some might even argue that the Committee should release its minutes on a current basis. But he did not believe this was the sort of thing the Committee was dealing with. The question before the Committee was whether or not it could work out some method of making documents of historical value available to competent historians with an appropriate time lag. He thought the Committee could rationalize the 10-year time period. It seemed to him that the minutes should be made available at the National Archives, the repository for national historical documents. He added that he found much merit in the suggestion that the Committee attempt to find a competent historian to prepare a System history.

Mr. Wayne continued by remarking that he had recently reviewed back minutes of the Committee and had not found them entirely dull from the standpoint of economic history. Nor had he found anything of which the Committee need be ashamed; the minutes spoke of careful, competent deliberations. He believed they should be made available to competent

scholars. Microfilming was not expensive; microfilm copies might be placed in the National Archives and in the libraries of the Board, the Federal Reserve Banks, and the greater universities.

As to the time lag, Mr. Wayne said, he thought it would take very close to a 5-year lag if members were to avoid any tendency to speak for the record. He also considered this lag appropriate in light of the fact that the Administration changed every 4 years. A lag of 3 years seemed to him the minimum, and he would prefer 5 years.

Mr. Mills said that he agreed in every respect with the position Chairman Martin had taken. He thought the Committee should publish the minutes for the period 1951-60. For those who were fearful of criticism but at the same time would be willing to produce the minutes at the request of Congress, he would point out that the only occasions that Congress had to request the minutes stemmed from criticisms of System policy, so the Committee was just fostering the criticism. Publication of the full minutes would, in his view, serve as an antidote to criticism and would win adherents to offset the critics.

Mr. Robertson said he found himself in accord with Mr. Wayne. The Federal Reserve System was a Governmental institution and a servant of the public. As such, its records should be made available for public inspection. He would prefer not to publish the minutes in book form, but to make them available on a limited basis in Federal Reserve libraries and at National Archives and in microfilm form at some universities. He also would make available the minutes of Board actions but

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only with a substantial time lag, because Board minutes often dealt with specific institutions. For minutes of the Open Market Committee, a 5-10 year lag would be appropriate, and a 5 year lag probably was adequate.

Mr. Robertson said he had no objection to an extension of the "article" approach, but he considered it unwise for the Federal Reserve to attempt to select a historian to write a history from the System's point of view. It was difficult to learn enough about any individual to know whether his ideas coincided with the System's viewpoints, and in any event historians should be objective and write history as they see it--rather than as we would direct or desire. As to the span of the history, it would be desirable to start from the beginning of the System and come up to whatever lag period the Committee decided was appropriate.

Mr. Shepardson said that as a public body the Committee's actions were appropriate for the public record after such time lapse as might be considered necessary. But there was a question in his mind as to whether the "records" necessarily included all the internal documents used in arriving at a conclusion. The idea of a quarterly report had some merit, but he was doubtful whether public records should necessarily include all of the internal discussion reflected in the minutes. For that reason, Mr. Shepardson said, he had not been particularly enthusiastic about publication of the minutes. On the

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other hand, the point had been made that the Committee had been called upon to submit the minutes to Congress. Whether or not Congress could appropriately demand the minutes might be a consideration. He doubted that it lacked the authority to do so, and if this view was correct it provided an argument for making the minutes available to other people by placing them in a repository open to anyone interested.

Mr. Shepardson said that he was cynical enough to expect that the greatest use of the minutes would be made by those who were trying to pick out something for their own particular purposes. People on both sides--defenders and attackers--might do that. At least there would be an opportunity for those interested in defending the System to do so, although he doubted that it would work out that way. He agreed with the suggestion that the System should try to get, through arms-length selection, someone who would write an objective history--hopefully one that would be more readable and more useful than the minutes themselves.

Altogether, Mr. Shepardson said, while he did not generally like the idea of putting out the Committee minutes as a public document--and he thought the minutes of the Board had to be considered along with those of the Committee--perhaps it could not be avoided. It might be best done by making the minutes available at appropriate reference centers. As to the time lag, 5 years might be a good principle. A 3-year lag was implied in the suggestion that the minutes be published

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for the 1951-60 period. However, if the Committee should now decide to publish the minutes for this period, another year probably would pass before they were ready for release. In a final comment, Mr. Sheparðson said he agreed with Mr. Clay that if the Committee was going to publish its minutes it would be better to do so when it was not under pressure rather than act in response to pressure.

Mr. Mitchell said that if the matter came to a vote he would not vote against making the minutes available. Nevertheless, he questioned whether this was the best course of action. He thought it a mistake to believe that the minutes could be confined to the hands of objective, competent scholars, and he did not shrink particularly from putting the minutes in the hands of hostile critics.

While he was prepared to release the minutes on any basis agreeable to others, Mr. Mitchell continued, he thought publication of past minutes would not meet the real issue. He had thought quite a bit about the matter and had come to the conclusion that it would be desirable to make available a digest of the minutes every 3 months. Such a digest was the real solution to the problem of telling people what the Committee was doing. If it were well and responsibly prepared it would conceal nothing of relevance; it would reflect the different points of view expressed and the personalities of the various participants. It also would be a much more polished document than were the minutes.

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Mr. Hickman said he would go along with those who favored publishing the minutes as a whole rather than attempting to have them digested by an unbiased scholar. Such a person would be difficult to find; everyone had certain predilections and feelings in these matters. He recently had reviewed the record and thought it a good document which spoke for itself. In his judgment putting out the minutes for 1951-60 would not be a disservice to the System, and would be preferable to having the so-called unbiased work done. If the document was deposited in public libraries in microfilm form, it would give the unbiased student some idea of how policy was formulated in the System. It would give him a feeling of democracy at work with all points of view represented; and would demonstrate that the Committee was not a group of people representing the moneyed interests.

Publication of minutes, Mr. Hickman continued, also would help students focus on some of the real problems of monetary policy, such as the problem of appropriate target variables. Students would tend to do research on positive problems, and the Committee might get some constructive help. With respect to the time period to be covered, Mr. Hickman favored publishing the minutes through the year 1960.

Mr. Bopp said that as one who had spent some 10 years doing research on the System before entering its service he had great sympathy with the proposal to publish the minutes. At the same time, he agreed with an observation contained in a memorandum that had been

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prepared for Mr. Deming, to the effect that bad books can be turned out more quickly than good ones. This led him to feel that it would be desirable for the System to get foundation money to finance a System history. He recalled that the Rockefeller Foundation had once provided funds for such a study, but the only product had been Professor Chandler's book on Benjamin Strong.

Mr. Bopp thought it would be desirable to have a competent scholar--perhaps one selected by a committee of the American Economic Association--write a System history. If this could be done, he said, he would make the minutes available subsequent to publication of the history. As to the time lag, it seemed to him that it should be on the order of a decade, although he realized that the whole character of the Federal Open Market Committee was now changed and that policy was no longer formulated as it was years ago. In addition, it seemed to him that the Committee had made significant progress in providing information in such forms as the Bulletin articles by Mr. Coombs describing the System's foreign currency operations and by Mr. Stone reviewing open market operations in 1962. These were excellent works and it would be desirable in the future to have similar reports on a semiannual basis. Possibly the Committee could have a quarterly review of policy published in the Bulletin with a 3-month lag. He was generally in favor of publishing the minutes but he did have some concern about the hazards of making them available to anyone; the initial reactions were apt to be critical.

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Mr. Patterson reported his belief that Mr. Bryan still subscribed to his statement of April 1962 in favor of publishing the minutes with a time lag of 5 years.

Mr. Shuford said that he concurred in the view that records should be made publicly available insofar as practicable, because the Committee was a public institution. But it seemed to him that there were limitations. For one, the effect of publication on the nature of the meetings and on the nature of the record had to be taken into consideration. There also was a question of how current publication would be. Thirdly, there were statutory provisions that the Committee should consider with respect to the release of its records. Although the Committee was a public body, Mr. Shuford said, he considered the Chairman's letter to Mr. Patman a good statement on why its minutes should not be released. He doubted that publication of the minutes would accomplish the intended purpose or that it would satisfy all those interested in the Committee's work. As far as the general public was concerned he thought there would be little interest in, or public relations value to, the minutes. As far as others were concerned, the Committee would be faced with a problem of the lag; it would be argued that if the records should be made available because the Committee was a public body, they should be made available as soon as possible.

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Mr. Shuford commented that he was not disturbed by the contents of the minutes, which in his judgment reflected supportable views. But if they were published with any lag the Committee would always be subjected to criticism by some who would want something more--more recent minutes, more materials on matters discussed in executive session, perhaps verbatim transcripts. Taking this step would not answer all questions.

Reverting to the question of statutes, Mr. Shuford noted that the Committee had made much material available that was not required by statute, and it could do the same with its minutes. However, the statute did specify the means for the Committee to supply information on its operations to the Congress and the public: through the Annual Report of the Board of Governors. It seemed preferable to him to move through such channels rather than to take some other voluntary action. He liked Mr. Deming's suggestion for having System histories prepared, and did not think the ends that would be served by such histories would be accomplished by making the minutes available. In his judgment there was a considerable amount of similarity between the Committee and other groups, such as the courts, that met in executive session. He noted that the courts published only their decisions and regarded their deliberations as intramural.

Mr. Balderston said that, as he had observed in earlier discussions of this matter, he thought it was unfortunate that when the

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Committee turned over its 1960 minutes to a Committee of Congress, the latter Committee then hired a pair of scholars of its own choosing to prepare a digest. He was happy that so far the Congressional Committee had not published that digest. He favored publishing the minutes as suggested initially by the Chairman, for the reasons given by Messrs. Wayne, Mills, and Robertson. But he had been impressed with the argument of Messrs. Deming and Bopp that if the Committee was to publish the minutes it should give a running start to a scholar who, if not of the Committee's selection, would at least be selected from a list that the Committee had approved. On this plan, an instructive document would be available to the public at about the time the minutes were placed on the shelves of Federal Reserve Bank and other selected libraries. He suggested that the Committee act today, first to authorize the Secretary to proceed with the reproduction of a moderate number of copies of minutes for 1951-1960, inclusive, and secondly to implement Mr. Deming's suggestion. He was not sure that it was necessary for the funds to come from a foundation but he agreed that the selection of the scholar should not be made by the Federal Reserve alone.

Mr. Balderston continued by observing that he was sensitive to the fact that since 1960 the Committee had moved into new areas. Specifically, Mr. Coombs' reports often referred to other nation's problems. While it was proper that this information should be revealed

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to the Committee, he would hope that if at some future time the minutes for last year and this year were made public all references to other nations would be excluded.

Chairman Martin said that in his opinion the Committee had had a useful discussion on the matter of publishing the minutes. However, he did not think that putting the question to a vote at this time would solve the problem. He thought everyone ought to continue to study the question; much depended on the particular methods of releasing information that individuals had in mind. He proposed that the Committee request Messrs. Sherman and Young to make a summary of today's discussion on the basis of the minutes, and that the Committee take up the matter again early in the new year.

Mr. Swan noted that most of the discussion had centered around the minutes for 1951-1960. If the Committee released these minutes on any basis, he said, it immediately would be faced with legitimate requests for records going back to 1914. Chairman Martin said that this was true, but he doubted that anyone would feel strongly that information for the earlier years of the System should be withheld.

Mr. Shepardson suggested that the Committee ask the Secretary to explore the possibility of obtaining the services of a writer to prepare a System history.

Mr. Hayes commented that this suggestion seemed to prejudge the issue. He did not feel there had been any agreement at this meeting on a course of procedure.

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Chairman Martin expressed the view that the Committee should continue to explore the matter. He noted that for years there had been discussions of the possibility of having a System history prepared. Also, the Committee previously had considered publication of the minutes, and from time to time had been under pressure to release materials. He considered the position taken in his letter to Mr. Patman to be valid, and he thought that the Committee could hold to that position if it so chose. But in one way or another the Committee had to come to grips with the fact that its decision-making process-- which in his opinion was a good one--was not sufficiently understood. This was the basic problem. He did not think this sort of problem should be resolved unless the Committee was virtually unanimous. Accordingly, he would propose that the matter be held over for further consideration.

Mr. Shepardson said that he had suggested some investigation of the possibility of having a history written not with the idea of action but in order that a report could be presented for discussion before a decision was taken on release of the minutes.

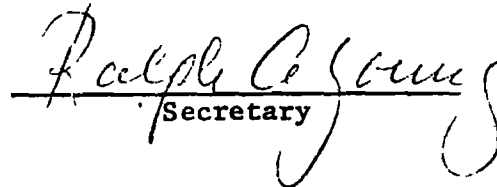
The Chairman concurred in the proposal that this question be explored. Mr. Young said that he could discuss the matter with the Presidents of the two main foundations and with the President of the American Economic Association.

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It was agreed that the next meeting of the Federal Open
Market Committee would be held on December 17, 1963.

The meeting then adjourned.


Secretary