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, January 10, 1956, at 10:45 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston
Mr. Earhart
Mr. Fulton
Mr. Irons
Mr. Leach
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Treiber, Alternate for Mr. Sproul

Messrs. Erickson, Johns, Powell, and Young, Alternate Members of the Federal Open Market Committee

Messrs. Williams, Bryan, and Leedy, Presidents, Federal Reserve Banks of Philadelphia, Atlanta, and Kansas City, respectively

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Daane, Hostetler, Rice, Roelse, Wheeler, and R. A. Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Carpenter, Secretary, Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Koch, Assistant Director, Division of Research and Statistics, Board of Governors
Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Gaines, Special Assistant, Research Department Federal Reserve Bank of New York

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the Federal Open Market Committee held on November 30, December 8, and December 13, 1955, were approved.

Before this meeting there had been distributed to the members of the Committee a report prepared at the Federal Reserve Bank of New York covering open market operations during the period December 13, 1955, through January 4, 1956, and at this meeting there was distributed a supplementary report covering commitments executed January 5 through January 9, 1956, inclusive. Copies of both reports have been placed in the files of the Federal Open Market Committee.

> Upon motion duly made and seconded, and by unanimous vote, the transactions for the System account during the period December 13, 1955-January 9, 1956, inclusive, were approved, ratified, and confirmed.

Chairman Martin then called upon Mr. Ralph Young for a statement on recent economic developments, and Mr. Young summarized the situation substantially as follows:

With indexes both of industrial activity and of industrial prices penetrating new high ground, with demands in many lines pressing against capacity, and with open season for forecasting at hand, many observers seem to be regarding a downturn in 1956 as more than a possibility, indeed, even a likelihood. With this view expressed by some observers of recognized competence, magnifying glasses, too frequently out of focus, are being put to use in watching economic indicators typed as leading.

As we read the current data, there is no visible conjuncture of developments at this time that would spell general downturn in the foreseeable or near-term future. Economic activity in this country is still advancing, but limitations on the pace of further advance in output are plainly in evidence. With aggregate demands still undergoing expansion, pressures on supplies are finding further expression in rising prices for industrial output.

Abroad in industrial countries, most recent data show that advance in activity has been extended, and with intensive utilization of manpower and capital resources, pressures toward price advance have also been manifest. Foreign trade has continued to advance over-all, especially for industrial products, and further large gains have been registered for foreign holdings of gold and dollars. The drain on British reserves has apparently been brought to a halt. Taken as a whole, the domestic and international situation may be characterized as still showing, at least on the industrial side, an inflationary color.

As to specifics of the situation:

GNP for the final quarter of 1955 is estimated at $397 billion, up $40 billion from mid-1954. Personal income rose further, especially the wages and salaries component. Weekly earnings in manufacturing at the year end were about 8 per cent over a year earlier. The labor market continues farily tight, so that some bidding up of wages as well as increases now scheduled by contract and the change in the minimum wage law will operate in the months ahead to increase wage rates and incomes further.

Industrial production registered a further index point gain in December to 145, about 5 per cent above midyear and 12 per cent over a year ago. Production at year end was being maintained or expanded, with output in a number of lines as high as capacity or materials supplies would permit. In the auto industry, cutback in schedules was in process; output of other consumers durables also was off some, but mainly reflecting work stoppage in TV and appliance lines. In nondurable lines, where capacity margins obtained, output was rising in response to heavy consumer buying during the autumn. In equipment industries, where capacity was being pressed, backlog orders were piling up.

Much talk has gone on about a weakening in auto markets, but considering this is the second year of the forward look and also the off season, sales levels for both new and used cars seem well maintained. Sales competition for new cars is keen, however, and prices of the three lower priced makes are about at last summer's levels for cash deals. Sales of household durables held through the fourth quarter at close to high October levels. In the auto as well as diversified consumer durable lines, output and sales at the year end seemed in tenable balance.

Instalment outstandings increased about $350 million in November and probably more than this in December. Terms competition appears to have stabilized, but forces again to intensify it appear strong.

Value of new construction in December was slightly off from high spring levels, reflecting mainly a reduced volume of residential building. The value of residential construction contract awards for November and December was up.

The System's survey of residential real estate markets, just completed, failed to disclose a surplus housing condition in any major market. It did bring to light, however, that housing demand is less urgent than earlier; that new house and used house price trends are seemingly diverging--the former up, the latter down; that builders still confront difficulties in obtaining new commitment money; and that builders are hesitant not only because of financing problems but because of demand.

In recent weeks, prices of industrial materials have been showing renewed strength. Steel scrap, nonferrous metals, lumber, cement, paper, cotton textiles, fuels, and hides and leather have all registered new advances. An early steel price rise is reportedly in the making.

With demands for finished goods strong and materials and other costs rising, upward price pressure on finished products continues and various prices have been raised recently. Overall prices of industrial commodities are up about 5 per cent over midyear.

Farm prices declined further in November and early December, reflecting further decreases in meat prices. With pressure of heavy slaughter abating, meat prices have strengthened some recently.

Price advances in consumer markets commenced to be evident about midyear. They have been increasingly numerous in recent months, with the result that, despite lower meat prices this fall, the consumer price average has been edging up.

With sales at manufacturer and distributor levels rising further, and with stock-sales ratios at low levels, pressures to add to inventory continue. A larger rate of inventory gain is expected for the fourth quarter compared with earlier in the year, though it will partly reflect a considerable price element. New orders in durables manufacturing were up in November from October, though they were not as large as in August and September. The rise in new orders for producers equipment, however, was especially large. Unfilled orders for durables for November exceeded $50 billion, up $7 billion above the low point of a year earlier.

Mr. Thomas then made a statement concerning recent credit and financial developments. Mr. Thomas' statement, like that made by Mr. Young, to some extent summarized and supplemented the information presented in the staff memorandum dated January 6, 1956, copies of which were distributed before this meeting.

Mr. Thomas noted that there had been somewhat conflicting developments in the credit picture in recent weeks. The reluctance of banks to grant credit seemed to be increasing and money market pressures appeared to be growing, with interest rates continuing high, even though from a statistical standpoint it appeared that there had been less pressure on reserves than a few weeks earlier. Deposits and currency showed a greater than seasonal increase in December, bringing the total growth for the year up to nearly 3 per cent--close to the 1954 rate of growth. Business loans at weekly reporting member banks continued to increase in December and the total increase during the last half of 1955, Mr. Thomas said, was over $3 billion compared with increases of about a quarter billion dollars each in the corresponding periods of 1953 and 1954 and an increase of $2-1/2 billion in 1952. The reporting member banks also increased their investments during December, reflecting purchases of Treasury tax anticipation certificates in that month. This increase was in contrast with the downward tendency in holdings of Government securities by reporting member banks during most of 1955. Mr. Thomas also noted the large volume of new securities offered during November and December, followed by some slackening in recent weeks.

Mr. Thomas pointed out some of the unusual factors that had affected member bank reserves during December 1955, and suggested that the temporary nature of some of the sources of reserves--the unusual large float and low Treasury balance--might account for the failure of money markets to ease. Other factors were the distribution of the reserves mostly outside of New York and the effect of the higher discount rate on banks' willingness to borrow. He referred to a sheet that was distributed at this meeting showing a pattern of projected changes in reserves. These projections indicated that (in the absence of System action) net borrowed reserves of weekly reporting member banks during the week ending January 11 might be around $150 million. With a run-off in System bill holdings now scheduled for January 12, an increase in net borrowed reserves was anticipated during the following weeks.

With respect to the outlook, Mr. Thomas said that if there were no further action on the part of the System other than repayment of existing repurchase agreements, net borrowed reserves could be expected to be in the $300 to $500 million range for several weeks. The question the Committee faced was whether this amount of net borrowed reserves with a 2-1/2 per cent discount rate would result in more pressure on the market than was the case last fall when the discount rate was 2-1/4 per cent. Mr. Thomas said that, in view of the general world-wide tendency for wages and prices to increase and pressures for expansion, there appeared to be no indication of a need for less restraint at the present time than existed during the fall of 1955. The question was whether the Committee needed stronger restriction than existed at the present. The answer might be reached through watching the behavior of the money market and the credit situation.

Chairman Martin stated that Mr. Thomas had pointed up very well the problems facing the Committee. It became more and more apparent, he said, that psychology played a great part in determining the tone of the market. Chairman Martin went on to say that Vice Chairman Sproul was unable to be present today, and he called upon Mr. Treiber as alternate for Mr. Sproul for comments with respect to the economic situation as observed in the New York District and to open market operations.

Mr. Treiber made a statement substantially as follows:

1. The year 1955 marked a great economic expansion with gradually increasing credit restraint.

2. Our policy of credit restraint, as expressed in open market operations, caused or permitted borrowings of member banks to increase from nominal figures in January 1955 to about $1 billion in November, while so-called free reserves declined from about plus $350 million to about minus $500 million. The discount rate was advanced in four steps from 1-1/2 to 2-1/2 per cent. Interest rates in the market, particularly at short term, responded to these changes in the availability and cost of bank reserves and, presumably, the use of bank credit was also affected by increases in its cost and by greater difficulty in obtaining access to it. Although bank loans increased greatly as economic growth gained momentum during the year, this increase was accompanied by a substantial liquidation of bank investments. The increase in the money supply was significantly less than the increase in economic activity.

3. The clear course of our policy was dimmed but not abandoned during December, when the needs of Treasury borrowings and refundings, and the special seasonal and year-end strains and stresses, caused us to permit some statistical easing of the reserve position during the latter half of the month. This was recognized by the market for what it was, however, and credit

did not really become easy. In fact, the market was in such a state of uncertainty, at times, as to create a danger that anticipation of shortages of funds might outrun the immediate aims of credit policy.

4. As we enter 1956 our problem becomes more difficult. The economic outlook is cloudier. It is apparent that economic expansion will not continue at the same rapid rate and that demands for bank credit will be less intense. The need for increased credit restraint may now be less than it has been because the boom is further along toward a crest; signs of slowing down have already appeared in some key areas, such as automobile production and residential housing, and consumer expenditures appear to have leveled off.

5. On the other hand, employment and personal income are high, and plant and equipment expenditures are expected to establish volume records. Foreign demand for U. S. industrial products is strong. Prices of industrial materials have continued to rise and it looks as if inventories will be accumulated during the months ahead at a more rapid rate than they were in 1955. Large supplies of farm products at lower prices have reduced the advances that otherwise would have been recorded in commodity prices and living costs.

6. If credit is too readily available before we adjust to a flattening out of the rate of economic growth, we could have an upward spiralling of prices based on increased costs and some continuing shortages of materials. We don't want to encourage such a development. On the other hand, we don't want to increase credit restraint unnecessarily; we don't want to jeopardize adjustment of the economy to a slower rate of growth which otherwise might be successful.

7. Treasury operations during the first half of 1956 will be anti-inflationary. Even though there may be various proposals for tax relief and for increased spending, any proposals that may be adopted will have little effect on actual receipts and disbursements during the first half of 1956.

8. The immediate task of credit policy is to guard against the still potent inflationary pressures in the economy while avoiding the excesses of credit restraint that might in a taut money market cut off necessary credit.

9. Attainment of this aim counsels our seeking to regain, through open market operations, the position of credit restraint that we had achieved in November before the special needs of December altered our course, but that we should do no more for the present. The demonstration of our intention to do that much will give us a test of market reaction to continued credit restraint at a time of a prospective slowing down in the rate of

economic growth, and the way may then be clearer for our next move, whether toward more or less restraint of the continuance of the status quo.

10. Repurchase agreements now on the books (about $120 million) are scheduled to run off this calendar week. Treasury bills maturing Thursday, January 12, held in System account and amounting to about $202 million, will run off, reducing member bank reserves by that amount. If our projections are approximately correct, net borrowed reserves for the next statement week should average something over $400 million. This will bring us back, so far as negative free reserves are concerned, to near where we were at the end of November.

11. Between now and the next meeting of the Committee, modest sales of Treasury bills from the System portfolio may be in order from time to time to maintain the desired degree of restraint. Unless the projections go awry, and of course they can easily do so--as Mr. Thomas has pointed out this morning--large System transactions in the market will not be called for.

Mr. Johns said that he hoped he was not too much affected in his views by the developments which he saw or thought he saw in the St. Louis District. He had no desire to differ with the broad aspects of the appraisals of the situation that had been given this morning, but in the Eighth District there were some signs of weakness which he thought should not be overlooked. Agricultural income in that District did not decline during the past year as it had nationally and as had been expected in the Eighth District. This was because of the large cotton crop, however, and the agricultural outlook for the St. Louis District is not good--a decline in farm income is now contemplated for this year. Mr. Johns also cited soft spots in the District, mentioning Evansville, Indiana, where several important industrial plants have been closed down or had operations sharply curtailed recently. After making allowances for these factors, however, Mr. Johns said that he agreed that the outlook was for continued expansion although probably at a slower rate. He referred to the understanding of the Committee four weeks ago that it should attempt to regain the degree of credit restraint that had existed in November, recognizing that it might not be able to do so very quickly. It had not been able to do so yet, he said, and he was inclined to the view that perhaps the Committee should not attempt at this time to regain quite the degree of restraint that had been attained in November. Not much different, he said, but he would not be disappointed if during the next two weeks the Committee still failed to regain the November degree of restraint.

Mr. Bryan said that in the Sixth District the general picture of conditions continued to be one of economic boom and, in some spots, rather an economic expansion at a rate that may be unsustainable. This, of course, had to be related to the agricultural situation which was roughly the same as that described by Mr. Johns for the Eighth District. While there were no visible signs of general economic softening, Mr. Bryan suggested that some pervasive effects on the economy might come about by reason of the increased rate of repayments on the large volume of consumer instalment debt now outstanding, so that repayments might shortly equal and then exceed new consumer debt commitments. He supposed this would have a rather general effect, probably within a few months, of "taking the bloom off the boom." He sensed from his conversations with persons around

Atlanta that there was a tendency for persons to become more careful shoppers, and he cited both automobiles and housing as items for which potential buyers probably were less ready to make commitments than had been the case a few months ago. Mr. Bryan said that he had some doubts whether the boom was going to go much further. Until the picture was clearer, he would not take additional measures of restraint in the way of an increased discount rate or otherwise, although he would like to recapture more of the November degree of restraint than had existed in the past few weeks. If, in the next two or three weeks, the situation should show too much easing in terms of money rates, he would like to see the System account take active steps to counteract that tendency, realizing that with the Committee meeting at short intervals it could shift readily if necessary.

Mr. Williams said that in the Third District there was a general expectation of a good year during 1956 but not one of easy gains. Conditions were spotty; some areas were having boom, while conditions in others were not good. Mr. Williams referred to the comment by Mr. Young in the economic review to the effect that the situation was highly competitive but that it appeared that sales would hold up. He stated that the Philadelphia Bank had made surveys of the sales outlook in automobiles, both by telephone and personal interview, and after summarizing some of the information developed in the surveys stated his conclusion to the effect that automobile dealers were anxious to sell new cars for immediate delivery at substantial discounts from list prices, and to apply such "discounts" as the down payment. It was Mr. Williams' view that a large part of the so-called "profit margin" of automobile dealers was represented by the discounts to which he referred. Thus, while automobile dealers might maintain sales, they might not be making much money. The used car market is distinctly better than the new car market, Mr. Williams said, but it too is much more competitive than formerly. Essentially the same picture exists in the real estate market in the Philadelphia District, Mr. Williams added: there is an increased supply of houses but it is not alarming. As Mr. Bryan had indicated for the Atlanta District, potential buyers were shopping around much more carefully than previously and the situation was becoming more competitive. There is no long run pessimism apparent in the Philadelphia District, however, and in some parts of the District such as southern New Jersey and Delaware there is distinct optimism. Mr. Williams expressed the view that if the Committee were to move upward in the degree of pressure being exerted, it should be ready to move downward: he would follow a policy of watchful waiting during the next few weeks until the Committee could see ahead more clearly.

The situation in the Cleveland District continued to be one of boom, Mr. Fulton said. The Westinghouse Electric Company strike was having repercussions in several cities, but there was still a shortage of skilled labor. Metal prices were increasing and back orders were heavy, and the situation in the District as a whole continued to be one of sustained high economic activity. Even though business was going to be highly competitive during the coming year, Mr. Fulton felt that it would be a mistake to relax credit restraint since such a program would only add to the inflationary potential. On the basis of the economic picture as currently observed in the Cleveland District, his view was that it would be desirable to try to regain the degree of restraint that existed toward the end of November.

Mr. Shepardson said it seemed to him that, even with the variations in conditions in different segments of the economy brought out this morning, there was still evidence of a good deal of pressure resulting from price increases. Some further increases seemed almost inevitable. Under these conditions it would seem highly desirable to hold at least a stable line for the present. At the preceding meeting there had been agreement that it would be desirable to try to recover the degree of restraint that had existed earlier. While that had not been done, an effort still should be made to get back to the November level.

Mr. Robertson said he did not believe the bloom was off the boom. There possibly had been a let-down after the Christmas splurge, but he would be surprised if the boom did not continue. However, there was sufficient uncertainty at the moment to make him reluctant to take much action one way or the other. In terms of open market operations, his feeling was that for the next two weeks the Committee would do well to watch the situation carefully. There should be no relaxation, but he would be reluctant to move strongly on the side of restraint.

Mr. Mills said that he generally shared the views expressed by Mr. Robertson. Starting with the postulate that a degree of credit restraint should be continued, for which there are sound reasons, it would seem that the Committee should move in a framework that would determine what the availability of credit should be. As a guide, Mr. Mills suggested that the Committee should follow with even more attention than usual the shifts in loan volume at reporting member banks, particularly in central reserve cities. There is an undercurrent of doubt which may not be clarified for a month or two. Additional credit may be necessitated by involuntary inventory accumulations or it may come out of legitimate demands that have not been satisfied previously and which will press most heavily on central reserve city or reserve city banks at a time when they are already under the pressure of a heavy loan volume. With their lessened ability to shift readily out of Government securities to provide a source of loanable funds, it may be justifiable to assist banks in meeting these needs. Therefore, Mr. Mills said, he believed that in looking at the total volume of credit the Committee should not be overly concerned if it failed to see as sharp a credit contraction in the first weeks of this year as might ordinarily be expected. At this juncture, the Committee should be wary about considering an unseasonal loan demand as having dangerous symptoms of an inflationary character. To bring these factors into its vision would mean that the Committee should move cautiously toward regaining the position of restraint that existed in November, and that it should be very alert to the movements in the volume of loans and to the resultant pressures on the money market as reflected in prices of United States Government securities. If it found a burden of necessitous credit moving toward the larger banks and if they had no choice but to dispose of United States Government securities in substantial amounts to meet this demand, the Committee might find the Government securities market adversely affected, to the detriment of its own policies. Mr. Mills said that his feeling was that the Committee should move cautiously and, if at all possible in moving to a higher level of net borrowed reserves, give some public indication through its actions of the direction and purposes of System policy. These indications should be given well in advance of the Treasury's having to come to the market for refunding needs in March and April.

Mr. Powell noted that it was midwinter in the Ninth District and that industry and trade were affected materially by snow and cold weather, which made it difficult to analyze closely the basic economic developments. Retail trade in December was quite poor in the District, he said, and while year-end inventory figures were not yet available, he had the impression that retailers were left with quite a heavy volume of inventories. This probably had something to do with the volume of credit being used currently. Mr. Powell could see no particular purpose in making it more difficult for retailers to unload these inventories by putting pressure on them through higher interest rates. On the other hand, agriculture--the principal industry of the Ninth District--has been spending beyond its means, and this has resulted in higher loans at agricultural banks. This increase in credit had been accompanied by some deterioration in its quality. Good farmers are making money but total farm income is slightly down from a year ago and this means that the marginal farmer is going to have to reduce his expenditures eventually. An increase in interest rates would be a help in dealing with conditions in this field, Mr. Powell felt.

Looking ahead into 1956, Mr. Powell said he was somewhat concerned about inventory accumulations. He had not been concerned on this point last fall because at that time increasing sales justified the higher inventories. If sales were to taper off nationally in 1956, however, Mr. Powell thought there was real danger that inventories would be getting out of line. From that standpoint, it might become necessary not only to make sales from the open market account but a higher discount rate might be needed before the year was far along. This is the season of the year when plans are being made, Mr. Powell noted, and if business concerns were to be cautioned against making too extravagant plans, the Federal Reserve should set the stage in the credit field. He was inclined to favor an early increase in the discount rate and meanwhile, to continue pressure on the money market through open market operations as a means of getting the year started with the tone the Committee thought would be needed.

Mr. Leach said that for some time he had thought the economic outlook for 1956 was strong, despite prospective weaknesses in the residential construction and automobile industries. On the basis of recent surveys, he was inclined to think that the decline in residential starts in 1956 would not be as great as had been anticipated and, consequently, construction as a whole should move up from the present level. Because of this the general outlook now seemed slightly stronger to him than it did before. On credit policy, the question as he saw it was whether the Committee should continue the same degree of restraint it had last November or whether it should increase that restraint. We are still rather close to the uncertainties that existed in the Government securities market in December, Mr. Leach said, and it is too early to know what will happen to loans in January. At the moment, he would prefer to postpone any decision as to moving toward greater restraint and to consider the question further at the next meeting. Net borrowed reserves around the $350 to $400 million level shown in the projections seemed to him to be about right, and he thought that the Committee would not need to do much through the open market account between now and the next meeting to be held late in January other than to let some maturing bills run off. Mr. Leach said that he definitely would not favor an increase in the discount rate at this time.

Judging by employment figures, Mr. Young said that the Chicago District was still in a period of boom. Less than 3 per cent of the total labor force was unemployed in December. Residential awards have been less than they were but nonresidential contracts have been up by around 20 per cent, more than offsetting the decline in residential activity. Mr. Young commented on a number of panel discussions held recently with business leaders, including the heads of steel, oil, mail order, and other companies as well as bank loan officers. Without exception, he said, these individuals were extremely optimistic. The farm situation had its problems, particularly the livestock producers, and farmers were increasing debt by incurring unsecured obligations and increasing open end mortgages. However, the steel industry had plans for substantial expansion in capacity, and the over-all situation was very good despite some uncertainties, such as in the automobile industry which now talks in terms of a 10 to 20 per cent reduction in the number of cars to be produced this year. Mr. Young said that he would have about the same views on credit actions as indicated by Mr. Robertson, that is, the Committee should move very slowly, looking at the situation from day to day but not moving in either direction until the picture was a little clearer.

Mr. Leedy recalled that there was fairly general agreement when the present policy was adopted as to the degree of pressure the Committee wanted to apply and as to the conditions in the economy that justified that action. While there was some evidence that in certain segments of the economy there was some lessening of upward pressures, he thought the evidence was not yet sufficient to justify any change either in the direction or the extent of the pressure to be applied in the credit field. His view was that the Committee should attempt to regain the position it was in before the Treasury's December financing. However, it should move in this direction very cautiously. Mr. Leedy thought there had been plenty of latitude given to the management of the account under the existing policy to permit it to feel its way along. He would not wish to have operations conducted in a way to let the market feel that it had a signal that there was any change in the views held by the Open Market Committee.

Mr. Earhart indicated that his views were similar to those expressed by Mr. Leedy. California had been suffering from floods and it was not yet possible to assess accurately the final measure of the damage to the economy. It was clear that lumber production had been seriously affected and this was a very important industry in the Twelfth District. Mr. Earhart said that it was difficult to see anything tangible that would change the opinion that the economy was faced with conditions of very high activity and high employment. From the psychological viewpoint, however, one could not help but sense that people have changed their views and, while still optimistic, many are expressing caution. In other words, there has been a little change in what might be called the general public psychology and this is apparent whether one talks with a businessman or with the man in the street. In terms of net borrowed reserves, Mr. Earhart said he would be disposed to run along for the next two weeks at the $300-400 million level, maintaining substantially the position that now exists. He agreed with Mr. Leedy's comment that it would be undesirable to give a signal which might indicate a change either way in the Committee's policy. His thought was that it would be desirable to have a situation for the next two weeks where, if any psychological factors arose which called for it, some relaxation could be adopted or, if the action of Treasury bill prices so indicated, the Committee could step up the pressure.

In the Dallas area, Mr. Irons said, conditions at the end of 1955 were similar to those described for the United States--strong, but with some reservations because of uncertainties as to the outlook for residential building and the automobile industry. An agricultural problem existed and it had been aggravated recently by drought, but this was not a problem on which open market policy could help much. Mr. Irons said it was difficult to know just what was happening in the automobile market, although he felt sure that cars were being sold competitively. Current models do not seem to have been received as well as other recent models. On the other hand, industry and trade generally were at peak levels and the economic situation seemed to be strong, a boom with some elements of uncertainty. Under these conditions, Mr. Irons would not launch into a more restrictive credit policy but would maintain a degree of restraint about comparable to that expected prior to the Treasury's financing in early December. This should be not only in terms of the volume of free reserves, but also in terms of money rates and the entire credit picture. Mr. Irons said that he would not favor raising the discount rate now.

Mr. Erickson commented on conditions in various industries in New England, including electrical machinery, machine tools, paper and pulp, jewelry, shoes, and textiles. His remarks indicated that current activity was generally at good levels, with forward orders in some industries at new highs. Agriculture in the First District, heavily weighted by dairy and poultry, was higher in 1955 then in 1954. Mr. Erickson said that the Boston Bank had made a check of conditions in the automobile market and found the situation similar to that which Mr. Williams had described for the Third District. In purchasing cars for its own use, the Bank found that substantial discounts from actual list prices were readily available. Mr. Erickson remarked that "some of the steam has gone out of the engine" and a leveling off might come earlier than some economists had expected. He thought the Committee should be regaining the degree of restraint that it had early in December, proceeding cautiously in that direction, but that for the present no change should be made in the discount rate.

Mr. Szymczak said that nothing in the economic situation had occurred to call for a change in the policy being pursued by the Committee, so far as he could see. However, the present was the time of year when seasonally the System could absorb some of the reserves that it had supplied in December, and he would not be quite as cautious as others had indicated in proceeding in that direction, including perhaps sales from the System account as well as runoff of maturing bill holdings. Mr. Szymczak said he doubted that this was the time to increase the discount rate although it was possible that later on the System would feel that that should be done.

Mr. Balderston said that it might be assumed that a 2-1/2 per cent discount rate was appropriate for the time being in view of the topping off that may be in the making, even though upward price and wage pressures continued. The Committee should not forget that demands upon metal producers and metal working plants are very heavy and demands for scrap are world-wide. He could see little chance that the price of steel and other metals would not rise this spring. Mr. Balderston said he was concerned that the wage adjustments other than those that would come automatically might be more liberal than is prudent because of general price increases during the spring. He also suggested that the Committee keep in mind the fact that on top of the involuntary inventory accretions to which Mr. Mills had referred, there may come a temptation to pile materials for stock, provided manufacturers believe prices are going to move higher and they are in a position otherwise to stockpile. In view of these factors--the topping off and the upward price and wage pressures--Mr. Balderston said that he would keep the discount rate just where it is. Assuming that it is an appropriate rate, he would also favor keeping the bill rate in the general neighborhood of the discount rate with such a level of net borrowed reserves as would accomplish that end. What this level might be he did not know. However, he would use rates as the principal indicator, together with such "feel" of the market as the trading desk is able to get. He would certainly not want the Open Market Committee to indicate any change in policy during this period of watchful waiting.

Chairman Martin said that, as he had commented regarding other recent meetings of the Committee, there was a surprising degree of unanimity indicated by the comments made this morning as to what the situation called for in the way of credit policy. He judged that the consensus was to maintain the policy the Committee had been pursuing. Some favored a little move in one direction, others would move a little in the other direction, but on the whole the view was to continue about what was being done. Chairman Martin said that he was in agreement with this view. At least two of the comments had included the phrase "watchful waiting." This, too, seemed appropriate, Chairman Martin said. He wished to add the comment that the public would be watching more carefully than for some time the way the Federal Reserve handled the return flow of currency this year. As he had stated at the meeting a month ago, Chairman Martin said he did not think it was possible to regain the degree of tightness that had existed in November. It was not possible now to be precise in determining just how operations should be carried on. However, he would emphasize the view that in carrying on its operations the Committee would not wish to permit any signal to be given which would indicate that it had in mind any easing until it was satisfied that it was ready for a move in that direction. It was the Chairman's judgment that it would not be possible to change back from such a view, if it once were given. Chairman Martin suggested, and there was no indication of a different view, that policy be continued until the next meeting in the general posture he had described.

At this point Chairman Martin noted that it was contemplated that the next meeting of the Committee would be held on Tuesday, January 24,1956, at 10:00 a.m.

Chairman Martin then asked that Mr. Rouse comment on his statement of policy and whether there was need for some clarification.

Mr. Rouse agreed with the view expressed by Chairman Martin that the market will watch closely what is done with respect to the System account during the next few weeks. The market understands that repurchase agreements will not be available after Thursday of this week, and dealers are somewhat unhappy that they will have to pay 3-1/2 per cent to carry bills which were purchased at 2-1/2 per cent. Mr. Rouse thought there was a good likelihood that there could be a runoff in Treasury bills against the return flow of currency this month. He also referred to the interest being shown in distribution of stock of the Ford Motor Company and to the prospect that all of the current offering would be absorbed by the public at once. Some of the funds which the Ford Foundation would receive would be placed in short-term securities which would have an effect in the market. Mr. Rouse said that, as Mr. Thomas had pointed out, fluctuations in float and the Treasury balance have made it very difficult to increase net borrowed reserves as rapidly as he had hoped. The System account had been taking advantage of every opportunity to get back the degree of restraint that existed last November, but this had proved to be almost impossible.

Mr. Rouse noted that there had been some discussion in the press of the date for this meeting of the Committee and said that there was a tendency for the market to be conscious of the meeting day. He wondered whether it was necessary for the date of the meeting to be given out.

There was some discussion of this question during which Mr. Thurston, in response to Chairman Martin's question, stated that so far as he knew there had been no definite policy with respect to giving information on dates of meetings of the Open Market Committee. However, he rarely received an inquiry as to the meeting days. His inclination, he said, would be not to conceal the date for a meeting if he were asked unless there seemed to be some definite reason for doing so.

Mr. Irons recalled that the announcement that appeared in the Federal Reserve Bulletin for July 1955 concerning the discontinuance of the executive committee of the Federal Open Market Committee indicated that the full Committee thereafter would meet at frequent intervals, rather than on a quarterly basis.

The discussion of this point closed with a comment by Chairman Martin to the effect that if inquiries arose, it might be as well to answer them in general terms, indicating that the Committee met at frequent intervals.

Chairman Martin then inquired of Mr. Rouse whether he would suggest any change in the directive to be issued to the Federal Reserve Bank of New York, and Mr. Rouse said that his suggestion would be that the directive be renewed in its present form.

Thereupon, upon motion duly made and seconded, the Committee voted unanimously to direct the Federal Reserve Bank of New York until otherwise directed by the Committee:

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System open market account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to restraining inflationary developments in the interest of sustainable economic growth, and (c) to the practical administration of the account; provided that the aggregate amount of securities held in the System account (including commitments for the purchase or sale of securities for the account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accomodation of the Treasury, shall not be increased or decreased by more than $1 billion;

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

(3) To sell direct to the Treasury from the System account for gold certificates such amounts of Treasury securities maturing

within one year as may be necessary from time to time for the accomodation of the Treasury; provided that the total amount of such securities so sold shall not exceed in the aggregate $500 million face amount, and such sales shall be made as nearly as may be practicable at the prices currently quoted in the open market.

Chairman Martin next brought up the authorization for repurchase agreements. Neither the Manager of the Account nor any member of the Committee suggested any change in that authority.

Thereupon, the following authorization was approved by unanimous vote:

The Federal Reserve Bank of New York is hereby authorized to enter into repurchase agreements with nonbank dealers in United States Government securities subject to the following conditions:

1. Such agreements
   - (a) In no event shall be at a rate below whichever is the lower of (1) the discount rate of the Federal Reserve Bank on eligible commercial paper, or (2) the average issuing rate on the most recent issue of three-month Treasury bills;
   - (b) Shall be for periods of not to exceed 15 calendar days;
   - (c) Shall cover only Government securities maturing within 15 months; and
   - (d) Shall be used as a means of providing the money market with sufficient Federal Reserve funds to avoid undue strain on a day-to-day basis.
2. Reports of such transactions shall be included in the weekly report of open market operations which is sent to the members of the Federal Open Market Committee.
3. In the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, the securities thus acquired by the Federal Reserve Bank of New York shall be sold in the market or transferred to the System open market account.

Chairman Martin noted that there had been distributed immediately before this meeting a report dated January 9, 1956, from the

Subcommittee on Defense Planning (Messrs. Shepardson, Sproul, and Robertson), and he called upon Mr. Robertson, as Chairman of that committee, for comment on the report.

Mr. Robertson stated that the report of the Subcommittee on Defense Planning was based upon his memorandum dated September 29, 1955, which had been distributed to the members of the Committee in October. The program now submitted by the committee prescribed the ways and means for carrying out a plan essentially as proposed in the memorandum referred to, as supplemented by suggestions made by Mr. Sproul and recorded in the minutes of the meeting held on October 25, 1955. This involved the means for rebuilding the Committee in the event of an emergency, the authorization for purchases of Government securities by individual Federal Reserve Banks under certain conditions, a proposal that the Open Market Committee provide guides for the Reserve Banks in the exercise of their discretion regarding purchases of Government securities, and a training program so that a number of persons within the Federal Reserve System would be available to carry on open market operations in the event of an emergency.

Mr. Earhart noted that one of the proposals in the subcommittee's report was that the Federal Reserve Bank of New York adopt the practice of sending weekly to the relocation centers of each Reserve Bank copies of pertinent open market accounts and daily advices of transactions. (This would be accompanied by discontinuance of the maintenance of duplicate records as now done by the Federal Reserve Bank of Chicago.) He noted that in at least the Twelfth District there was more than one relocation center and that the records center might not necessarily be at a relocation center. He raised the question whether it might be possible to send the proposed reports of accounts and transactions to the records center as a preferable means of assuring that they would be available in the event of an emergency.

Mr. Robertson responded that the intention was to have such reports at the place where records would be available to the relocation center, and he suggested that it be understood that any problems of distribution by the New York Bank of the reports mentioned be handled individually by the Reserve Bank concerned in consultation with the Secretary of the Committee.

Chairman Martin stated that in a telephone conversation with Mr. Sproul this morning, the latter had indicated that he was prepared to have the Committee act on the program proposed in the subcommittee's report at its meeting today. Chairman Martin inquired whether any other members of the Committee had questions or suggestions concerning the program proposed in the report. In the absence of comment, he suggested that the Committee approve the program as submitted by the Defense Planning Subcommittee.

Mr. Treiber noted that the last paragraph of the report suggested that drafts of appropriate resolutions for adoption by the

Open Market Committee and drafts of the guides referred to for purchases of Government securities by individual Federal Reserve Banks and for the use of personnel who might assume responsibility for leadership in reactivation of a Government securities market, be prepared by a group to be appointed by the Open Market Committee from members of its staff having to do with open market operations. He inquired whether it was contemplated that this committee be appointed at the present meeting.

Mr. Robertson stated that he contemplated that this would be deferred until the Secretary of the Committee had had an opportunity to consider the procedures to be followed in implementing the subcommittee's report.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the report of the Subcommittee on Defense Planning was approved with the understanding that the necessary steps would be taken to carry out the program outlined.

Thereupon the meeting adjourned.

Winfield W. Riefler

Secretary.