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, March 6, 1956, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Balderston
Mr. Erickson
Mr. Johns
Mr. Mills
Mr. Powell
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Vardaman
Mr. Fulton, Alternate

Messrs. Bryan and Leedy, Alternate Members, Federal Open Market Committee

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

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Abbott, Parsons, Roelse, Willis, and 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. Marsh, Manager, Securities Department, Federal Reserve Bank of New York

Mr. Riefler reported that advices of the election by the Federal Reserve Banks for a period of one year commencing March 1, 1956, of members and alternate members of the Federal Open Market Committee had been received, and that each newly elected member and alternate member had executed the required oath of office, except that in the case of Mr. Treiber, the form for the oath had been sent to him in New York where it was understood that he would execute it as an alternate member of the Committee. The members and alternate members were as follows:

J. A. Erickson, President of the Federal Reserve Bank of Boston, with A. H. Williams, President of the Federal Reserve Bank of Philadelphia, as alternate member;

Allan Sproul, President of the Federal Reserve Bank of New York, with William F. Treiber, First Vice President of the Federal Reserve Bank of New York, as alternate member;

W. D. Fulton, President of the Federal Reserve Bank of Cleveland, as alternate member;

Delos C. Johns, President of the Federal Reserve Bank of St. Louis, with Malcolm Bryan, President of the Federal Reserve Bank of Atlanta, as alternate member;

Oliver S. Powell, President of the Federal Reserve Bank of Minneapolis, with H. G. Leedy, President of the Federal Reserve Bank of Kansas City, as alternate member.

Upon motion duly made and seconded, and by unanimous votes, the following officers of the Federal Open Market Committee were elected to serve until the election of their successors at the first meeting of the Committee after February 28, 1957, with the understanding that in the event of the discontinuance of their official connection with the Board of Governors or with a Federal Reserve Bank, as the case might be, they would cease to have any official connection with the Federal Open Market Committee:

Wm. McC. Martin, Jr.	Chairman
Allan Sproul	Vice Chairman
Winfield W. Riefler	Secretary
Elliott Thurston	Assistant Secretary
George B. Vest	General Counsel
Frederic Solomon	Assistant General Counsel
Woodlief Thomas	Economist
Wm. J. Abbott, Jr., Franklin L. Parsons, H. V. Roelse, Parker B. Willis, and Ralph A. Young	Associate Economists

Upon motion duly made and seconded, and by unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System open market account until the adjournment of the first meeting of the Committee after February 28, 1957.

Mr. Sproul stated that the Board of Directors of the Federal Reserve Bank of New York had selected Mr. Rouse as Manager of the System Open Market Account, subject to the selection of the Federal Reserve Bank of New York by the Federal Open Market Committee as the Bank to execute transactions for the System account and his approval by the Federal Open Market Committee.

Upon motion duly made and seconded, and by unanimous vote, the selection of Mr. Rouse as Manager of the System Open Market Account was approved.

Chairman Martin stated that he was voting for approval of Mr. Rouse as Manager of the System Open Market Account although he disapproved of the procedure now followed by the Committee under which the board of directors of the agent Federal Reserve Bank selects the manager. There were no personalities involved in this feeling, the Chairman said, but he referred to the action of the Committee in authorizing appointment of a special committee at the meeting on March 2, 1955, to study and bring back to the Committee concrete proposals for perfecting the structural and operating organization that would best implement the policies of the Federal Open Market Committee. This Committee, he said, had met with the Board of Directors of the New York Bank last November but he, as Chairman of the committee, had not called a meeting since that time partly, at least, because of pressure of other problems. Chairman Martin said that he intended to continue the Committee appointed pursuant to that authorization until it had a report to submit to the full Committee, and in this connection he stated that he proposed to have a meeting of the committee on the day on which the next meeting of the Federal Open Market Committee (probably to be held on Tuesday, March 27, 1956) took place.

> Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on February 15, 1956, were approved.

Reference was made to a memorandum distributed with the agenda for this meeting with respect to the procedure approved by the Committee on March 2, 1955, whereby, in addition to members and officers of the Committee and Reserve Bank Presidents not currently members of the Committee, minutes and other records could be made available to any other employee of the Board of Governors or of a Federal Reserve Bank with the approval of a member of the Committee or another Reserve Bank President, with notice to the Secretary. The memorandum indicated the extent to which such records were being made available, on the basis of advices received by the Secretary, and suggested that following this meeting a review be made by the members of the Committee and the Reserve Bank Presidents of the persons authorized to have access to the records, with proper notice to the Secretary of any changes that should be made in existing authorizations.

> It was agreed that no change should be made at this time in the procedure for giving access to minutes and other records of the Federal Open Market Committee. In taking this action, it was understood that following this meeting the Secretary would be informed of any changes that should be made in the existing authorizations.

Chairman Martin commented on the traditional care with which minutes and other records of the Open Market Committee were handled, noting that there was a problem of how to train additional persons in the System so that they would be prepared to carry out the activities of the Federal Open Market Committee. The Committee wanted to maintain secrecy regarding its discussions and activities, but it also should encourage the development of as much talent as possible for this work throughout the System. This was a responsibility within the province of each member of the Committee, the Chairman noted, and each individual who attended the meetings must judge the extent to which Committee discussions should be passed on to others. He was inclined to think, Chairman Martin said, that there might have been more secrecy or restriction in handling some of the open market materials and discussions at some of the Federal Reserve Banks and at the Board than was necessary in order to maintain the confidential nature of the Committee's operations. This might have limited the development of knowledge on the part of additional individuals in the System undesirably. Chairman Martin said that he was not suggesting any change in procedure which would result in lack of judicious use of the materials or information in the discussions at the meetings, and he noted that in the past there had been some unfortunate "leaks" regarding Committee discussions and decisions. However, he felt that the likelihood of such leaks would not be furthered if the individual Committee members saw fit to make materials available to selected additional persons for training purposes.

Chairman Martin referred to the resolution adopted by the Federal Open Market Committee on November 20, 1936, authorizing each Reserve Bank to purchase and sell, at home and abroad, cable transfers and bills of exchange and bankers' acceptances payable in foreign currencies, to the extent that such purchases and sales may be deemed to be necessary or advisable in connection with the establishment, maintenance, operation, increase, reduction, or discontinuance of accounts of Federal Reserve Banks in foreign countries.

It was agreed unanimously that no action should be taken at this time to amend or terminate the resolution of November 20, 1936.

Before this meeting there had been sent to the members of the Committee a memorandum dated February 23, 1956, from Mr. Rouse and Mr. Leonard, Director of the Board's Division of Bank Operations, with respect to the allocation of securities in the System open market account among the several Federal Reserve Banks, as it would take place on April 2, 1956, under the formula which became effective September 1, 1953. This formula provided for percentage allocations to each Federal Reserve Bank based on the ratio of total assets of each Bank to total assets of all Reserve Banks computed on a daily average basis during the twelve months ending in February.

> It was agreed unanimously that no action should be taken at this time to amend or terminate the procedure for allocation of securities in the System open market account which was adopted pursuant to the action of the Committee at its meeting on June 11, 1953.

Chairman Martin noted that authority had been given to the Chairman of the Committee at the meeting on March 1, 1951, and renewed in March of each year since that time, to appoint a Federal Reserve Bank as agent to operate the System account temporarily in case the Federal Reserve Bank of New York was unable to function. The report of the Subcommittee on Defense Planning dated January 9, 1956, which was approved by the Federal Open Market Committee on January 10, 1956, included a recommendation that this authorization be reaffirmed.

> The authority of the Chairman to appoint a Federal Reserve Bank as agent to operate the account temporarily in case the Federal Reserve Bank of New York was unable to function was reaffirmed by unanimous vote.

> Unanimous approval was given to distribution of the weekly report of

open market operations prepared at the Federal Reserve Bank of New York as follows:

1. The members of the Board of Governors.
2. The Presidents of the 12 Federal Reserve Banks.
3. Officers of the Federal Open Market Committee.
4. The Secretary of the Treasury.
5. The Under Secretary of the Treasury.
6. The Assistant Secretary of the Treasury working on debt management problems.
7. The Fiscal Assistant Secretary of the Treasury.
8. The Chief of the Division of Bank Operations of the Board of Governors.
9. The officer in charge of research at each of the Federal Reserve Banks which is not represented by its President on the Federal Open Market Committee.
10. The alternate member of the Federal Open Market Committee from the Federal Reserve Bank of New York; the Assistant Vice President of the Federal Reserve Bank of New York working under the Manager of the System Account; the Managers of the Securities Department of the New York Bank; the Vice President in Charge and the Manager of the Research Department of the New York Bank; and the confidential files of the New York Bank as agent for the Federal Open Market Committee.
11. With the approval of a member of the Federal Open Market Committee or any other President of a Federal Reserve Bank, with notice to the Secretary, any other employee of the Board of Governors or of a Federal Reserve Bank.

Before this meeting there had been sent to the members of the Committee a draft of authorization from the Federal Open Market Committee to the Federal Reserve Bank of New York to purchase bankers' acceptances. This draft represented a revision of the authorization approved in principle at the meeting of the Committee on March 2, 1955, under which the executive committee was given the authority to issue instructions to a Federal Reserve Bank for such purchases when a resolution in a form satisfactory to the executive committee had been prepared. Such authorization was given by the executive committee to the Federal Reserve Bank of New York, effective March 29, 1955; and under the terms of the resolution abolishing the executive committee, adopted at the meeting on June 22, 1955, that authorization by the executive committee became an authorization of the full Committee. The proposed resolution was drafted to continue as an authority from the Committee to the New York Bank the existing provisions with respect to purchases of bankers' acceptances.

Mr. Robertson said that he would oppose a renewal of the existing authority with respect to bank acceptance policy. In this connection, he made a statement substantially as follows:

> My views on this matter have not changed since a year ago, when I voted against the proposal that the System purchase bank acceptances "at market rates of discount" and maintain a portfolio of such acceptances.
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> Originally, the suggestion that we participate actively in the bank acceptance market was based on the idea that this market was impeded by "administered rate constriction" and that the situation could be alleviated by modest purchases at our initiative. Upon further consideration this line of reasoning was abandoned, and when the Committee adopted this policy, in March 1955, it was for the stated purpose of "showing the interest of the central banking organization in this market."
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> In my opinion a fundamental principle of our policy should be that the central bank should interfere with free market forces only to the extent necessary to discharge our responsibilities. We should stay out of market situations unless it is clear that our participation will yield specific benefits. When we stepped into the acceptance market there was no basis for thinking that action was necessary, and there is no evidence that the maintenance of a Federal Reserve portfolio of bank acceptances during the past year has aided the acceptance market in any way. We are properly subject to the charge that we have meddled gratuitously in a situation that did not need our participation.

For these reasons, I propose that the Federal Reserve System withdraw from active participation in the acceptance market. I believe that we could better support and encourage that market, if that be our aim, by standing ready to purchase acceptances at published rates that ordinarily would be a fraction above corresponding market rates. However, even such action is not warranted at this time.

Chairman Martin called for comments from other members of the Committee, and in response to a question from Mr. Balderston, Mr. Rouse referred to a memorandum prepared at the Federal Reserve Bank of New York under date of March 5, 1956, and distributed to the members of the Committee at the beginning of this meeting reviewing the results of System bankers' acceptance operations to date. Mr. Rouse commented briefly on the report, noting that a desire to increase flexibility of rates was a prime reason for embarking on the present policy, and that the System's activity in this market had contributed noticeably to flexibility in acceptance rates. Also Mr. Rouse felt that this activity had been of some help from the standpoint of dealers in acceptances. The volume had been so small, however, that a great deal of importance could not yet be attached to the operation. Mr. Rouse said that it was hoped that there ultimately would be more widespread convertibility of more currencies and, in his view, it would be worth while to continue the existing authority for purchases of bankers' acceptances for the purposes indicated at the time the authorization was approved a year ago, namely, that the System should assist in the further development of an acceptance market in the United States, with a view to improving this country's means of financing foreign trade and the functioning of an international money market.

Chairman Martin noted that there had been no second to Mr. Robertson's proposal that the Federal Reserve System withdraw from active participation in the acceptance market.

> Thereupon, upon motion duly made and seconded, the following authorization was approved, Messrs. Martin, Sproul, Balderston, Erickson, Johns, Mills, Powell, Shepardson, Szymczak, Vardaman, and Fulton, voting for the resolution, and Mr. Robertson voting "no" for the reasons indicated:

The Federal Open Market Committee hereby authorizes the Federal Reserve Bank of New York for its own account to buy from and sell to acceptance dealers, at market rates of discount, prime bankers' acceptances of the kinds designated in the regulations of the Federal Open Market Committee, at such times and in such amounts as may be advisable and consistent with the general credit policies and instructions of the Federal Open Market Committee, provided that the aggregate amount of such bankers' acceptances held at any one time by the Federal Reserve Bank of New York shall not exceed $25 million.

The Federal Open Market Committee further authorizes the Federal Reserve Bank of New York to enter into repurchase agreements with nonbank dealers in bankers' acceptances covering prime bankers' acceptances of the kinds designated in the regulations of the Federal Open Market Committee, subject to the same conditions on which the Federal Reserve Bank of New York is now or may hereafter be authorized from time to time by the Federal Open Market Committee to enter into repurchase agreements covering United States Government securities, except that the maturities of such bankers' acceptances at the time of entering into such repurchase agreements shall not exceed six months and except that in the event of the failure of the seller to repurchase, such acceptances shall continue to be held by the Federal Reserve Bank or shall be sold in the open market. Such repurchase agreements shall be at the same rate as that applicable, at the time of entering into such agreements, to repurchase agreements covering United States Government securities.

On July 20, 1954, the executive committee of the Federal Open Market Committee, pursuant to the authority given that committee to arrange for transactions for the System open market account with a view, among other things, "to the practical administration of the account," authorized the Manager of the System Account to engage in purchase and sale transactions in the market for "cash," i.e., for delivery and payment on the same day as that on which the transaction was executed. Previously, transactions had been limited to "regular" or next-day delivery, which prevented the System from making the most efficient use of its facilities in meeting all situations which might arise, particularly those which developed suddenly or which might be impossible to predict very far in advance. This authorization, which became an authorization of the full Committee at the time the executive committee was abolished on June 22, 1955, was in addition to the procedure for "regular" transactions and did not contemplate that all System transactions would be on a cash basis.

In response to a question from Mr. Vardaman, Mr. Rouse stated that the authority for cash transactions had been used quite actively in recent months. While he did not have precise figures of the proportionate volume of transactions engaged in on a cash or regular delivery basis, Mr. Rouse expressed the opinion that the substantial use that had been made of the procedure for completing transactions for delivery and payment on the same day had been of definite assistance in improving the techniques of operations for the System account.

> Unanimous approval was given to the continuance without change of the understanding that the Manager of the System Account was authorized to engage in transactions for either cash delivery or regular delivery.

Chairman Martin next referred to certain statements of operating policies or procedures which had been adopted in 1953 and reaffirmed in 1954 and 1955, and inquired whether there was agreement that the following statement of policy with respect to operations for the System account, listed as item "a" under topic 7 of the agenda for this meeting, should be continued:

> It is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market, and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets).

> It was agreed unanimously that the foregoing statement of operating policy should be continued without change.

Chairman Martin then referred to the following additional statements of operating policy, listed as items "b" and "c" under topic 7 of the agenda, inquiring whether the Committee desired that they be reaffirmed at this time:

b. Operations for the System account in the open market, other than repurchase agreements, shall be confined to short-term securities (except in the correction of disorderly markets), and during a period of Treasury financing there shall be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturities to those being offered for exchange; these policies to be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee.

c. Transactions for the System account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except in the correction of disorderly markets), and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio; such policy to be followed until such time as it may be superseded or modified by further action of the Federal Open Market Committee.

Mr. Sproul stated that he had reexamined his views concerning the continuing operating policies adopted by the Committee during the past three years as listed under item 7 of the agenda for this meeting, and that he was still opposed in principle and in practice to these operating rules which confine our ordinary operations to short-term Government securities, and which forbid transactions in certain securities at times of Treasury financing and offsetting sales and purchases of securities, until such time as these rules may be superseded by further action of the Committee. Mr. Sproul continued his statement on this subject substantially as follows:

Whatever justification there may have been for such continuing rules, when first enacted, would seem to me to have disappeared with adoption of a program which brings together the full Committee every three weeks, and places it directly in relation with the operating bank, without the intermediary of an executive committee. There is no longer need, if there ever was, for the Committee to continue to pass these ordinances of self denial, which tend to inhibit freedom of discussion and action by the Committee, and to generate complaint and criticism by some sectors of the market and by some of those in public life when current circumstance dictates action by the Committee to supersede its continuing rules. This will be increasingly so, I think, as time passes and it is more and more forgotten that these experimental rules are only in effect until superseded by further action of the Committee.

Now that we have the means of regularly determining policy every three weeks, or oftener if special circumstances require it, and of keeping in touch with operations from day to day through telephone and wire reports, it seems to me that it would be better to remove these particular continuing operating policies from the record (paragraphs b and c of item 7 of the agenda), and to discuss the matters with which they are concerned whenever we meet and whenever any member of the Committee or the Manager of the System Open Market

Account thinks that the current situation suggests a possible deviation from the practices of the past three years.

What I am getting at here is to try to introduce some greater flexibility into our thinking, to dispel the idea inside and outside the System that we are frozen in a pattern, and to create an atmosphere which will encourage rather than discourage discussion of these important operating problems. It is significant, I think, that there has been no real discussion of these continuing operating policies, other than formal yes and no votes, for many months. I may have contributed to this by suggesting a period of study of these rules in practice. I hope to present to the Committee, shortly, the results of my own study and I would also hope that this will stimulate a re-examination of our position on the part of all members of the Committee.

Mr. Mills stated that he would like to open the rebuttal to Mr. Sproul's argument by expressing the opinion that the best proof of the efficacy of the policy set out in "section (b) of continuing operating policies" lies in the tested experience of the past three years. This experience, he said, has demonstrated very clearly that this policy, in facilitating attainment of the System's general objectives, has also clarified to the market what can be expected in the way of positive System action at the time of a Treasury financing operation.

The remainder of Mr. Mills' statement was substantially as follows:

Mr. Sproul has pointed out--and I have great sympathy for his point of view--that there is a danger that rigid adherence to the principles set forth in section (b) can become like something carved on graven stone that can never afterwards be changed. However, we would be failing in our duties as members of the Federal Open Market Committee were we ever to allow ourselves to drift into so inert an attitude. My confidence in the membership of this Committee is insurance enough against so remote a possibility.

> The wording of section (b) distinctly sets out that this policy remains in effect solely at the discretion of the Open Market Committee and is subject to change whenever required, either in the event of urgency or following deliberative discussions. On the question of emergency or deliberative decisions, surely the Open Market Committee should always strive to be a deliberative body whose readiness for reaching quick decisions is helped and not hindered by reliance on time-tested principles. We have learned recently in a rather difficult period that occasions can arise requiring hurried meetings of the Committee and risking hasty decisions. It seems to me that abiding by a proven principle, like that of section (b), in serving to preserve the deliberative process for the Open Market Committee, affords protection against hasty decisions that can result in undesirable policy deviations. In my opinion, the rare occasion calling for a deviation from the policy contained in section (b) has yet to be witnessed, although it is of course possible of occurrence.

Mr. Erickson recalled the discussions of these operating policies in 1953 and the fact that he had joined Mr. Sproul in voting in December 1953 to add to the statement of procedure for confining operations to short-term securities and avoiding transactions in securities involved in a Treasury financing, a clause which would have provided that the policy be followed until the next meeting of the Federal Open Market Committee. He also had voted against the statement of policy precluding offsetting purchases and sales of securities for the purposes of altering the maturity pattern of the System's portfolio. Mr. Erickson went on to say that he would like to see more flexibility in these matters. He noted that the statements under discussion had been adopted by the Committee in 1953, That they had been reaffirmed in March of 1954 and again in March of 1955, and they were now being presented again without having been changed in the interim. Mr. Erickson questioned the meaning of the concluding clauses of the two statements under discussion which provide that the policies be followed until such time as they may be superseded or modified by further action of the Committee. He said that reaction of the financial community and the financial press to last November's deviation from the policy against purchases of securities involved in a Treasury financing made it apparent that dealers and others had come to look upon these as inflexible statements of procedure. This had resulted in confusion, Mr. Erickson said, and he expressed the opinion that it would be desirable for the Committee to give consideration to these procedures at frequent meetings and not to permit them to be set as policies to be followed more or less for all time. He thought a situation would arise again when the Committee would wish to depart from the statements of policy.

Chairman Martin responded that the statements of policy could be called up for discussion at every meeting if that was desired. He did not think the Committee should abandon the statements and have no policy guidance from one meeting to another. Chairman Martin also expressed the view that Mr. Sproul's suggestion that the statements be removed from the record because there was a means of regularly determining policy every three weeks did not seem applicable since, with discontinuance of the executive committee, each member of the Committee was now privileged to bring any of these questions up for discussion at every meeting, now ordinarily held at three-week intervals. He would not object to having the minutes indicate that members were encouraged to bring these matters up for discussion, but he felt that the Committee should give an indication as to what its general policy should be on the matters dealt with by the statements.

Mr. Sproul stated that he disagreed with Mr. Mills. He did not think the present operating policies had contributed to the effectiveness of credit policy. This was primarily perhaps because they had not, as the Committee was encouraged to believe, contributed to the better functioning of the Government securities market in the way that was supposed to have resulted. With respect to Chairman Martin's comment that the statements could be brought up for discussion at each meeting, Mr. Sproul said that their adoption as continuing policies had proved to be a "wet blanket" on discussion despite the last clause in the "b" and "c" statements; there had been a tendency for members of the Committee to be divided into rigid groups with their minds made up either for or against the policy. Removal of the statements would not mean that the Committee would not have any policy between meetings, Mr. Sproul said: it could adopt the same statement but with a wording that would make it clear that the Committee would constantly be affirmatively taking action to continue the statement rather than to have the statement in a form which indicated it to be a policy that could only be changed under the most urgent circumstances.

During the ensuing discussion, Mr. Balderston suggested that perhaps the substance of statement "b" should be looked upon as guidance to current actions and included in the directives to be issued to the Federal Reserve Bank of New York as agent for the System account at each meeting. He was not suggesting a change at this time but felt that such a change might be considered at a later meeting.

Chairman Martin said that he would like to make the point that consideration of the substance of these statements had not gone for three years without being reaffirmed: Mr. Sproul had seen to it that the Committee had had discussions of the statements at intervals, and there had been public discussions of the statements with the result that they had been constantly under re-examination. Chairman Martin said that they should be re-examined. However, he felt that the Committee itself had been responsible for getting the statements into a framework where more importance was attached to them than was warranted--an importance that would not have developed if the Committee had not been in so much disagreement within itself regarding the statements, and drawn more public attention to them than was justified.

Mr. Leach felt that one of the problems was the drawing of a line between a public record of credit policy and statements having to do with operating practices or procedures which need not go into a public record. He recognized the difficulty of drawing a line between these two but hoped that the policy record could more and more be a record of credit policy actions or decisions, and less and less a record relating to operating techniques or practices.

Mr. Bryan felt that the discussion this morning was largely on matters of form rather than substance. The Committee might not need a constitution, but some general rules as to its operating policies were needed. The real problem was the fundamental disagreement that existed in the Committee regarding the substance of the statements under discussion. He thought it doubtful that all members of the Committee would ever agree on each of the statements of procedures being discussed.

> After further discussion, Mr. Mills moved that the Committee reaffirm the statements of operating procedure as set forth under "b" and "c" above, pending whatever study the Committee might decide to make along the lines suggested by Messrs. Balderston and Sproul.

There was a long discussion of Mr. Mills' motion, during which Mr. Shepardson raised the question when consideration would be given to the substance of these statements. He noted that reference to them had been made at a number of meetings within the past year, and he expressed the hope that a full scale discussion of their substance could be had at an early meeting.

In the course of the discussion, Mr. Vardaman suggested and the suggestion was accepted by Mr. Mills, that the last clause of Mr. Mills' motion be eliminated in order to make clear that at this point the Committee was voting only on the question whether to reaffirm the statements in their present form.

> After further discussion, Mr. Mills' amended motion was put by the Chair and carried, Messrs. Martin, Balderston, Erickson, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, Vardaman, and Fulton voting for the motion, and Mr. Sproul voting "no" for the reasons he had indicated.

In a further discussion of the suggestions for re-examination of the continuing operating policies listed above as "b" and "c", it was agreed that the agenda for the next meeting of the Committee, to be held on Tuesday, March 27, 1956, would provide for a full discussion of suggestions to be submitted to the Secretary regarding procedures that might be followed in reviewing these statements, as reaffirmed at this meeting.

At Chairman Martin's request, Mr. Vest commented on drafts of two resolutions which would carry out paragraph A-1, D, E, K, and L of the report of the Subcommittee on Defense Planning dated January 9, 1956, and approved by the Committee on January 10, 1956. Mr. Vest stated that one of the resolutions would provide for the continued operation of the Committee during an emergency, while the other would authorize certain actions by Federal Reserve Banks during an emergency.

Mr. Robertson stated that in his opinion the drafts of resolutions carried out satisfactorily the recommendations contained in the report of the Subcommittee on the matters covered by the resolutions, and Mr. Sproul concurred in this view.

Thereupon, upon motion duly made and seconded, unanimous approval was given to the following resolutions:

RESOLUTION OF THE FEDERAL OPEN MARKET COMMITTEE TO PROVIDE FOR THE CONTINUED OPERATION OF THE COMMITTEE DURING AN EMERGENCY

In the event of war or defense emergency if the Secretary or Assistant Secretary of the Federal Open Market Committee (or in the event of the unavailability of both of them, the Secretary or Acting Secretary of the Board of Governors of the Federal Reserve System) certifies that as a result of the emergency the available number of regular members and regular alternates of the Federal Open Market Committee is less than seven, all powers and functions of the said Committee shall be performed and exercised by, and authority to exercise such powers and functions is hereby delegated to, an Interim Committee, subject to the following terms and conditions.

Such Interim Committee shall consist of seven members, comprising each regular member and regular alternate of the Federal Open Market Committee then available, together with an additional number, sufficient to make a total of seven, which shall be made up in the following order of priority from those available: (1) each alternate at large (as defined below); (2) each President of a Federal Reserve Bank not then either a regular member or an alternate; (3) each First Vice President of a Federal Reserve Bank; provided that (a) within each of the groups referred to in clauses (1), (2), and (3) priority of selection shall be in numerical order according to the numbers of the Federal Reserve Districts, (b) the President and the First Vice President of the same Federal Reserve Bank shall not serve at the same time as members of the Interim Committee, and (c) whenever a regular member or regular alternate of the Federal Open Market Committee or a person having a higher priority as indicated in clauses (1), (2), and (3) becomes available he shall become a member of the Interim Committee in the place of the person then on the Interim Committee having the lowest priority. The Interim Committee is hereby authorized to take action by majority vote of those present whenever one or more members thereof are present, provided that an affirmative vote for the action taken is cast by at least one regular member, regular alternate, or President of a Federal Reserve Bank. The delegation of authority and other procedures set forth above shall be effective only during such period or periods as there are available less than a total of seven regular members and regular alternates of the Federal Open Market Committee.

As used herein the term "regular member" refers to a member of the Federal Open Market Committee duly appointed or elected in accordance with existing law; the term "regular alternate" refers to an alternate of the Committee duly elected in accordance with existing law and serving in the absence of the regular member for whom he was elected; and the term "alternate at large" refers to any other duly elected alternate of the Committee at a time when the member in whose absence he was elected to serve is available.

RESOLUTION OF FEDERAL OPEN MARKET COMMITTEE AUTHORIZING CERTAIN ACTIONS BY FEDERAL RESERVE BANKS DURING AN EMERGENCY

The Federal Open Market Committee hereby authorizes each Federal Reserve Bank to take any or all of the actions set forth below during war or defense emergency when such Federal Reserve Bank finds itself unable after reasonable efforts to be in communication with the Federal Open Market Committee (or with the Interim Committee acting in lieu of the Federal Open Market Committee) or when the Federal Open Market Committee (or such Interim Committee) is unable to function.

(1) Whenever it deems it necessary in the light of economic conditions and the general credit situation then prevailing (after taking into account the possibility of providing necessary credit through advances secured by direct obligations of the United States under the last paragraph of section 13 of the Federal Reserve Act), such Federal Reserve Bank may purchase and sell obligations of the United States for its own account, either outright or under repurchase agreement, from and to banks, dealers or other holders of such obligations.

(2) In case any prospective seller of obligations of the United States to a Federal Reserve Bank is unable to tender the actual securities representing such obligations because of conditions resulting from the emergency, such Federal Reserve Bank may, in its discretion and subject to such safeguards as it deems necessary, accept from such seller, in lieu of the actual securities, a "due bill" executed by the seller in form acceptable to such Federal Reserve Bank stating in substantial effect that the seller is the owner of the obligations which are the subject of the purchase, that ownership of such obligations is thereby transferred to the Federal Reserve Bank, and that the obligations themselves will be delivered to the Federal Reserve Bank as soon as possible.

(3) Such Federal Reserve Bank may in its discretion purchase special certificates of indebtedness directly from the United States in such amounts as may be needed to cover overdrafts

in the general account of the Treasurer of the United States on the books of such Bank or for the temporary accommodation of the Treasury, but such Bank shall take all steps practicable at the time to insure as far as possible that the amount of obligations acquired directly from the United States and held by it, together with the amount of such obligations so acquired and held by all other Federal Reserve Banks, does not exceed $5 billion at any one time.

Authority to take the actions above set forth shall be effective only until such time as the Federal Reserve Bank is able again to establish communications with the Federal Open Market Committee (or the Interim Committee), and such Committee is then functioning.

Before this meeting there had been distributed to the members of the Committee a report of open market operations covering commitments executed December 13, 1955 through February 29, 1956, and at this meeting there was distributed a supplementary report covering commitments executed March 1-5, 1956, inclusive. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Mr. Rouse stated, in response to a question from Chairman Martin, that the System account had done the best it could to carry out the wishes of the Committee in a difficult situation, and operations seemed to have worked out reasonably well. Reaction of the market to the Treasury announcement regarding its forthcoming refinancing indicated a surprisingly successful offering with little attrition. Mr. Rouse thought it unlikely that any suggestion would be made to the Committee that the System give assistance in this refinancing. He noted, however, that at this stage the final result could not be forecast accurately, although all indications now bore out the views he had expressed. A third point to which Mr. Rouse referred was the large calendar of corporate financing mentioned in the report distributed. Large New York Banks were suggesting this was an appropriate time for corporations to fund bank loans. One of the factors in this development was the desire of banks to improve their liquidity positions.

Chairman Martin stated that question had been raised concerning the action of the System account in making available repurchase agreements since the last meeting of the Committee, and he asked that Mr. Rouse comment on this matter.

Mr. Rouse said that he had endeavored to open the doors somewhat for repurchase agreements and that they had been extended to a number of dealers in recent weeks. The amounts had not been large. He reported discussions regarding dealers' loans and the responsibility of banks in a Treasury financing operation, both among representatives of the American Bankers Association and the Investment Bankers Association. In his discussions with dealers, Mr. Rouse said, he had attempted to make it clear that while the System account was willing to assist, it expected dealers to find money that was available before they came to the Federal Reserve for assistance.

Mr. Mills said that in his opinion the handling of the account since the preceding meeting had been entirely appropriate. He then commented on the forthcoming Treasury financing and the acknowledged responsibility of the Federal Reserve to cooperate with a Treasury financing operation to the utmost possible up to the point of interference with the System's objectives for credit policy. He felt that the

Manager of the System Open Market Account had very meticulously followed that principle in the present Treasury financing operation, in that the System's policy objectives had in no wise been deterred by the reserves that had been supplied to the market. Continuing, Mr. Mills said that fortunately the point of view of the market at the present time indicated that the Treasury should not experience a heavy attrition in its refinancing program. However, he pointed out that whatever the System could do to minimize attrition in this or following Treasury financing operations would benefit the Treasury in the course of the next few months in that it could take fuller advantage of any budget surplus available to effect a dramatic and heartening reduction in the Federal debt by way of offering a lesser amount of refunding securities than the amount of securities maturing. Mr. Mills emphasized that a reduction in the Federal debt by the unspectacular route of attrition would not offer the same psychological advantages of the alternative procedure.

Mr. Rouse commented again on the outlook for the Treasury financing, stating that the System account was attempting to follow developments very closely from day to day.

> Upon motion duly made and seconded, and by unanimous vote, the transactions for the System account during the period December 13, 1955, through March 5, 1956, inclusive, were approved, ratified, and confirmed.

Members of the Board's staff then entered the room to assist in a presentation of an economic review, illustrated by chart slides.

A copy of the script of the review was sent to each member of the Committee following the meeting. The review stated that industrial production in the United States, like gross national product, had shown little further change recently, following earlier marked advances. Some comments regarding this leveling off called attention to selective reductions in demand and their possible significance for economic prospects and policy. Other observers emphasized that the leveling off came only after production in many lines had reached near capacity levels and upward pressures on industrial prices had developed. Industrial prices in the United States are now substantially higher than last spring, it was stated, and increases have continued in recent months although at a somewhat less rapid rate than earlier. In concluding the review, Mr. Thomas made the following statement:

> As we have seen, recovery and expansion in activity have been followed by little change. To some observers this has suggested that the forces of recovery may be about spent and that concern for the future should relate to possible declines in activity and employment--or at least to the possible failure of activity to increase enough to make full use of our expanding resources. In this view not much concern need be felt about the possibility of further price advances. In another view, the forces of expansion are still strong, leveling off of output is due in considerable part to capacity limitations, and the threat of further broad price advances is still very real.
>
> Some support can be found in the facts for each of the positions. Evidence of diminishing expansionary forces is seen, for example, in the consumer credit field. The rapid rise in instalment credit associated with easier terms and high auto sales was moderating by the fourth quarter, as extensions declined and repayments continued to rise, and a further slowing is evident so far this year. In the

housing field, mortgage lending and housing starts are down somewhat from earlier very high levels.

Business inventories of durable goods were higher at the end of January in relation to sales than they had been earlier, and the rate of inventory accumulation in the economy generally in recent months has been larger than would be indefinitely sustainable.

Agricultural incomes were down further last year, reflecting lower prices, especially for hogs. While land values rose somewhat until autumn, the value of livestock on farms--though not the number--was considerably reduced.

At the beginning of this year farmers owed more on short and long term than a year ago--about 10 to 15 per cent more--and in some areas they have drawn down their deposits appreciably. Price increases for farm products since the turn of the year have been largely seasonal. Large surpluses place limits upon the possibility of price increases for leading crops.

In industry there are important lines, such as textiles, in which increasing demands have been readily met by higher production without important price advances. Increases in list prices for new cars could not be made effective in retail markets.

Looking at these facts alone, one might conclude that demands may not be adequate to provide for further growth in the economy.

High on the list of facts supporting the view that the threat of broad price increases is still real, is continuing operation of steel mills at capacity despite reduction of demands from the auto industry. Railroad car builders, machinery producers, builders, and other users who had been unable to obtain enough steel are now in a better position to increase their production to fill orders already booked or in prospect.

A related basic fact is the expansion going on in capital equipment outlays. Apparently equipment programs are being further expanded in this period of little change in over-all activity. In addition, outlays for consumer non-durables and services in the fourth quarter rose further and outlays of State and local governments have been continuing their upward trend. The volume of new capital issues by corporations and by State and local governments has increased recently and the calendar for prospective new issues is impressively large.

The volume of orders received by manufacturers continued large through January. The most recent fluctuations have represented in large part unevenness in the flow of defense orders.

These facts concerning the domestic situation suggest that the forces of expansion may still be very strong and that pressures on available resources may continue.

How the moderating of production increases abroad is to be interpreted is also a question. The Bank of England and the British Government, surveying the whole situation in the United

Kingdon, where balance of payments problems are of great importance and where virtually no slack exists in the economy, evidently are primarily concerned at this time with the dangers of too great domestic demands and rising costs and prices.

From a long-run point of view, the record of recent years in the United States appears to be one of moderate growth in output, employment, and the money supply, with relative stability in prices. A possible near-term development, more hopeful than either of the alternatives presented, is that the slackening recently evident in some areas will make possible further expansion in others without undue pressures on resources and prices. Moderate adjustments of this nature, resulting from the play of market forces accompanied by a balanced budget and flexible credit policies, could help to bring about--and are essential for--the balanced allocation of resources that will assure the continuation of economic equilibrium and growth.

What monetary policy would best contribute to the attainment of this end? It is apparent that the policy of the past year has not been too restrictive. But that has been a policy of supplying the growth in reserves entirely through the discount window, with open market operations covering, at most, only the seasonal variations. That means that restraints became tighter in the course of time; as member bank borrowing increased, discount rates were raised, and bank liquidity was reduced to meet expanding loan demands. With the economy now operating close to capacity, credit growth in the coming year will need to be slower than in the past year, if rising price pressures are to be avoided. It may be that the existing degree of restraint, in view of adjustments already in process in the economy, will be fully adequate to bring about that result. This would mean that reserves needed for further growth, as well as for regular seasonal demands, ought to be supplied this year through open market operations without additional resort to member bank borrowing. On the other hand, the System should be prepared to combat a renewal of inflationary pressures, should that develop. Such a situation might call for some shift in emphasis of policy--through a rise in discount rates or more limited open market purchases--in accordance with developments in production, prices, and demands for credit. The task ahead seems to be a more delicate one than that carried out during the past year.

Chairman Martin asked that Mr. Sproul open the discussion of open market operations.

Mr. Sproul said that the over-all level of business remained high and steady with some strong spots and some weak spots, but with few signs that current near-stability is about to move out of the present range on the up side or to give way on the down side. It is early, of course, to assess the possible economic consequences of the decision of the President to seek reelection, he said, but at the moment it seems unlikely that it will have other than a steadying effect without greatly changing what appeared to be the immediate economic trend before the decision was announced. Capital expenditure programs continue large, Mr. Sproul said, and consumer spending stays at high levels, but there appears to be a little less pressure on productive capacity than there was three months ago.

Mr. Sproul went on to say that in this situation the prescription of a steady hand on the controls and a watchful eye on the road ahead continued to be in order. He would try to stay where we are between now and the next meeting of the Committee, he said, not being too concerned about temporary or day-to-day variations in reserves, if they do not appear to be causing either knots or sloppy conditions in the market and at the banks. On the basis of present reserve projections, Mr. Sproul thought that such a position might be maintained by relatively minor changes in System holdings. This would be helpful, in terms of over-all policy, he said, because he felt it important that the Committee try to give as little indication as possible of any change in policy in either direction at this time.

Mr. Johns said that he had very little to add to Mr. Sproul's statement since he was in agreement with the views that had been expressed. He noted that in the group who assisted him in open market matters at the St. Louis Bank, a minority felt that the time had arrived when the System should begin to ease noticeably in its credit policy. For example, a reduction in the discount rate had been suggested. Mr. Johns said he was not a member of that minority and he would have no reservations in seconding the views expressed by Mr. Sproul.

Mr. Bryan said that he had no fundamental disagreement with the views expressed thus far. In reviewing the situation with the staff of the Atlanta Bank, there seemed to be agreement at the moment that the tremendous upsurge in the economy had abated, but it was not clear that it would not break out on the up-side again. Mr. Bryan said he did not feel this was the time for any dramatic move in either direction, such, for example, as a change in the discount rate. He noted, however, that one member of his staff had suggested that the discount rate be lowered.

Mr. Fulton stated that he was not one to subscribe now to any indication of easing of the situation. He reviewed conditions in the Cleveland District, pointing to high current levels of activity in leading industries as well as to firm plans for large outlays for new plant and equipment. Mr. Fulton said that he did not believe the down-turn in the automobile industry or in housing was lethal to the economy. The Committee should be ready to move within the next 30 to 45 days toward a position of greater restraint rather than ease, he said, if the price structure were to be affected by the upward pressures which he felt existed.

Mr. Shepardson said that he was inclined to feel much as Mr. Fulton had indicated. He was concerned that as yet there had been no apparent development that was encouraging in the agricultural picture. The price squeeze for agriculture in the long run is not good. Costs of farmers have continued to rise, and the prospects are that there will be further increases reflecting higher labor costs and other factors. Mr. Shepardson felt the Committee should be alert to move against any further price increases. He would not suggest a material change in policy right now, but the Committee should hold firmly at its present position and be on guard to avoid creeping price increases such as occurred last year.

Mr. Robertson said that he agreed with the views expressed by Messrs. Fulton and Shepardson. He noted that at the last two meetings of the Committee emphasis had been placed on the "relaxation" side of the even keel. He felt the Manager of the Account had meticulously followed the Committee's directions. This had resulted in some relaxation. Mr. Robertson said he doubted the need for resolving doubts on the side of ease with purchases of $88 million of bills, just before the Treasury financing. He also felt there had been too-easy use of the repurchase mechanism. He agreed that through mid-March, while the Treasury financing was still a factor, it was necessary to continue to maintain stability in the market, but he felt that over the period of the next three weeks emphasis should be on the side of resolving doubts in favor of firmness rather than of ease. Mr. Robertson said he was not urging a change in policy but only that, when it was necessary to resolve doubts, that not be done on the side of ease. He referred to the level of prices of farm products which Mr. Shepardson had mentioned, stating that he thought the Committee tended to be too complacent about the average level of prices and failed to give consideration to the extent to which the over-all average was based upon a very low level of prices for farm products. His suggestion would be that for the next three weeks management of the account be directed to move imperceptibly toward taking up some of the slack in the money market, not taking any drastic action but resolving doubts on the side of not purchasing securities whenever there was a doubt.

Mr. Mills said that business sentiment since the preceding meeting has fluctuated and continues to fluctuate, but on balance it would look as though both business sentiment and economic prospects have improved over the last three weeks. His feelings were similar to those expressed by Mr. Sproul and shared by Messrs. Johns and Bryan, he said, and his views would be symbolized perhaps by a level of negative free reserves around $300 million.

Mr. Leach said that the Fifth District economy continued strong. There was no significant evidence of weakness although the situation in synthetic textiles has slipped further since the last meeting and is now reflected in curtailed operations. The cotton textile outlook continues favorable while bituminous coal output has continued to rise and is running some 20 per cent above a year ago. On balance, the district economy shows no appreciable movement in either direction and activity continues at extremely high levels. Although the immediate repercussions of the President's announcement have not been great, it has eliminated uncertainty and must be regarded as a plus factor. Loan demand continues strong. Mr. Leach said that recent developments do not call for any easing in the present situation, and he was inclined to agree with those who felt that Committee policy should be one of keeping an even keel in the immediate future.

Mr. Leedy said that he might express a different view if the problems in the Tenth District were ones about which the Committee could do something. There has been drought in a considerable part of the District and there is some distress in farm areas. However, he would subscribe to the view that nothing the Committee can do will make any direct contribution to that situation. Mr. Leedy felt that the most important thing in the picture in the past three weeks was the President's announcement. He could see no basis on which the Committee should take action to give encouragement to the furtherance of the kind of activity that has been taking place lately in the stock market. For the time being, he felt the Committee should pursue a policy of watchful waiting along the lines suggested by Mr. Sproul and others.

Mr. Powell reviewed economic conditions in the Ninth District briefly, stating that in his view open market operations should be maintained on an even keel basis until the next meeting of the Committee with no perceptible change being made in policy at the present time.

Chairman Martin noted that Mr. Mangels was attending a meeting of the Federal Open Market Committee as a Reserve Bank President for the first time and invited him to make any observations he cared to make.

Mr. Mangels presented a summary of economic conditions in the Twelfth District in which he brought out reasons why the trend of optimism had been modified somewhat on the up-side during the past several weeks. With respect to bank credit, he noted that Twelfth District banks have been losing demand deposits, that commercial and industrial loans were down slightly, and that agricultural, real estate, and consumer credit had increased recently. Borrowings by member banks recently had been quite modest and no occasion had arisen in which the Bank considered it necessary to discuss continuous or excessive borrowing with any member bank. Mr. Mangels said that he would be inclined to continue about the pattern and policy that had been followed in the open market during recent weeks. If, however, there were to be a choice, perhaps he would be inclined to resolve doubts on the side of ease rather than increased tightness.

Mr. Irons described economic activities in the Eleventh District as being at a high level and as warranting repetition of the remark he had made at the preceding meeting that the plus signs outbalanced the negative signs. While he would not wish to take any overt action at this time, he would align himself with the views expressed by Messrs. Robertson and Shepardson to the effect that if doubts were to be resolved one way or the other, they should be a little on the side of greater restraint rather than of ease.

Mr. Erickson said that the New England economy remained strong. Residential building awards, which had been running behind figures for a year ago, had improved and during the first three weeks of February were running well ahead of last year's figures. New England has had its first textile strike and reached a settlement with a wage increase of five cents an hour immediately and a further increase of seven cents an hour to be effective April 30. Whether this would set a pattern for other wage settlements in New England was difficult to judge at present. Mr. Erickson said that for the next three weeks he would maintain open market policy as it had been followed in the recent past. He, too, felt that if he had to lean either way, he would lean toward more restraint rather than toward ease.

Mr. Szymczak said he saw nothing in the picture to require a change in Committee policy as it had been decided at the meeting three weeks ago and as pursued since that time. The policy then adopted and the way in which it had been carried out had not produced a too-easy situation, in Mr. Szymczak's view.

Mr. Balderston said that he was deeply concerned about the price increases that were impending and about their coming so late in the present cyclical movement as not to be effective in restraining demand. The Committee must look forward to further price increases as a result of increased freight rates and current and pending increases in wage rates. His concern was all the more real, he said, because the price increases to which he referred were coming at a time when there was topping out in parts of the economy. On balance, Mr. Balderston now felt the Committee should restrict credit a little more than he felt it should six weeks ago. He hoped the bill rate would rise to the discount rate in the near future and that the Committee would keep negative free reserves at about the $400 million level. In short, Mr. Balderston said he subscribed to the views expressed by Mr. Robertson and others that the need was for a little greater tightness than was the case a few weeks ago.

Chairman Martin said he believed that the members of the Committee were in fairly close agreement on the existing economic situation and the credit policy called for. His view, he said, had swung slightly since the last meeting and he would now align himself with those inclined toward tightness rather than toward an easier policy at the moment. However, Chairman Martin said he thought the Committee was dealing in minute degrees and shades of emphasis. It was very difficult for the Manager of the Account to operate under such circumstances, he said, but he did not think that any useful purpose would be served in voting on a more specific policy directive. Chairman Martin did not feel that any change should be made in the Committee's directive at this juncture, although it might be desirable at the next meeting to consider a change of language. We were still in the middle of the Treasury financing and should maintain a condition of stability in the market until a little past March 15. The Committee should not start changing its policy immediately after this financing was completed. In general, Chairman Martin felt that the majority would agree that toward the end of the period between now and the meeting of the Committee to be held on March 27, doubts could be resolved in the direction of a little more tightness. But this was a shading of emphasis and he would think that the Committee should wait until its next meeting for any change.

In response to Chairman Martin's inquiry as to whether this represented a satisfactory summary of policy, several members of the Committee indicated agreement with it, and Mr. Rouse responded that he saw no need for changing the limits in the directive to be issued to the New York Bank.

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 while taking into account any deflationary tendencies in the economy, and (c) to the practical administration of the account; provided that the aggregate amount of securities held in the System account (including commitments for the purchase or sale of securities for the account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than $1 billion;

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

(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 accommodation 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 noted that Mr. Robertson had raised a question about the use of the repurchase authority earlier during the meeting and inquired whether he felt it would be preferable to have the use of repurchase agreements considered at each meeting of the Committee or to have this authority handled on some other basis.

Mr. Robertson said that he had no strong feeling that it was desirable to have the question come up at each meeting. He saw no particular reason why this authority should not be in the same category as the several continuing operating authorizations which were listed for consideration at the annual organization meeting and which had been passed upon earlier today. He stated that at the time the Committee modified the repurchase authority last August to limit it to the Federal Reserve Bank of New York rather than to all Federal Reserve Banks, it was approved with the understanding that it would be used sparingly at rates below the discount rate. That understanding had been carried out and he assumed that it would be continued.

Chairman Martin stated that he understood that this would be the case. He also said that the question whether to consider the repurchase authority at each meeting of the Committee, or only at longer intervals, might be discussed at the meeting to be held on March 27, 1956.

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.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary