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 8, 1957, at 10:00 a.m.

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

Messrs. Allen, Bryan, Leedy, and Williams, Alternate Members of the Federal Open Market Committee

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

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Abbott, Hostetler, 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. Miller, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Gaines, Manager, Securities Department, Federal Reserve Bank of New York

Messrs. Bopp, Daane, Mitchell, and Tow, Vice Presidents, Federal Reserve Banks of Philadelphia, Richmond, Chicago, and Kansas City, respectively; Mr. Atkinson, Economist, Federal Reserve Bank of Atlanta; and Mr. Walker, Economic Adviser, Federal Reserve Bank of Dallas

> Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the Federal Open Market Committee held on November 27 and December 10, 1956, 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 10, 1956, through January 2, 1957, and a supplementary report covering commitments executed January 3 through January 7, 1957. Copies of both reports have been placed in the files of the Committee.

After commenting briefly on developments in the Government securities market, Mr. Rouse presented figures showing changes in various factors that had affected reserves during calendar year 1956 and the net change in holdings of the System open market account during the year. He called attention to the fact that although the net change in System open market account holdings was small for the year as a whole, transactions for the account amounted to several billion dollars during the year.

Chairman Martin suggested that Mr. Rouse provide each member of the Committee with a summary of the information he had presented, and it was understood that this would be done.

> Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period December 10, 1956, through January 7, 1957, were approved, ratified, and confirmed.

A staff memorandum on recent economic and financial developments

in the United States and abroad had been distributed under date of January 4, 1957. At this time Mr. Young made a statement with respect to the current business picture as follows:

> The economic situation as of this meeting can be summarized this way: domestically, strong and still on the inflationary side price-wise; abroad, partly slackening and partly steady in Europe and inflationary outside Europe.
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> Commodity prices, while as always showing diversity of movement, continue to feature an upward weight according to the latest information. The average of industrial prices is up 4 per cent from a year ago while the general average of all wholesale prices is up 5 per cent. In the industrial sector, freight rates, finished steel, crude oil, cement, chemicals, synthetic yarns, carpets, and small household appliances are among the recent advances. Among the recent declines of note are steel scrap, tin, and copper. Farm products have been steady recently and are 6 per cent higher than a year ago, with livestock prices a fifth higher.
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> December industrial production is now estimated at 148, up one index-point from November, and a further point rise is now believed possible for January. Output of durables and minerals has risen further and nondurables activity has been maintained.
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> Since late autumn, rising automobile assemblies have been an important factor in raising industrial output. Dealer sales have been rising, too, but output has exceeded sales so that stocks have increased to about 530,000 units or a fifth below last year-end. While sales of some makes are sluggish, the total development in automotive markets to date has been, if anything, on the fairly satisfactory side from the standpoint of the industry. Prices of late model used cars have held steady about 10 per cent above last year, and the proportion of sales on a cash basis has shown about the usual seasonal rise following new model introduction.
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> With a more active automobile market, instalment credit outstandings rose about $300 million in November seasonally adjusted. Automobile paper accounted for $129 million of the rise. This was the largest monthly increase in automobile outstandings since last March.
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> Construction activity in the final quarter held close to record levels. Although new housing starts were off about a tenth from the fall rate for 1955, the volume of starts had steadied at about 1 million units annual rate.

Most building materials, except structural steel parts, were reported in ample supply through the fourth quarter, and construction costs showed little further change.

Mortgage underwriting activity has continued in fairly substantial volume, about the same as in late 1955. Discounts on FHA and VA loans reached about 4 percentage points by early December, when the FHA rate was raised to 5 per cent; these margins of discount still persist on loans coming to the market at the 4-1/2 per cent rate. Selling time on new and old houses in most major markets is about keeping steady.

Employment appears to hold close to record December levels, but the rate of increase in employment in nonmanufacturing lines has been moderating for several months and hiring rates in manufacturing have recently fallen off. Scattered layoffs have been reported in a diverse group of manufacturing industries, and unemployment claims appear to be running slightly more than seasonally for this time of the year. Seasonal variation in employment data is too irregular for these indications to be taken as a forewarning of an easing labor market development, but they do suggest that further changes will bear close attention.

Business inventories for November, the latest month for which figures have become available, showed a spurt on the upside to about $750 million. This compares with an average increase of $500 million for the preceding twelve months. About $500 million of the increase was in manufacturing, mainly in durables; the balance was in distribution, mainly at automobile dealers. The fourth quarter annual rate of nonfarm inventory accumulation is currently estimated at $4.5 billion compared with an average rate of $3.5 billion for the first three quarters.

New orders in durable manufacturing in November, although up only moderately, exceeded the record levels of December 1955 and January 1951. Unfilled orders in machinery industries were up sharply in November (20 per cent) and in primary metal and fabricated metal industries they were up appreciably (10 per cent). The rise in unfilled orders for all durable goods manufacturing was about 17 per cent.

Personal income in November is estimated at $334 billion, up 6 per cent from a year earlier. With high and still rising levels of personal income, department store sales for November and December also ran about this much ahead of last year.

Abroad, it is now clear that in Great Britain and Germany aggregate demand has been easing off since mid-1956. The impact of Suez developments has been mainly to give impetus to these slackening tendencies. This may be the underlying explanation as to why the Suez crisis had such moderate effect on international commodity prices, aside from petroleum prices and ocean freight rates.

Elsewhere in Europe, activity continues high and, with the exception of France, prices are stable. Gasoline rationing has, of course, caused a sharp reduction in the demand for autos.

In conclusion, a comment about GNP and money supply growth may be in order. The full year 1956 represented close to capacity performance for the economy. On a full year basis, total national product in current dollars exceeded that for 1955 by about 5 per cent. The increase in product in constant dollars was only 2-1/2 per cent.

From the fourth quarter of 1955 to the fourth quarter of 1956, the increase in gross national product in current dollars was more than 5 per cent, in fact about 5-1/2 per cent, largely reflecting the spurt this year from the third to the fourth quarter. But because of the greater price increase for this period, the increase in product in constant dollars was still only 2-1/2 per cent.

The reduced rate of real GNP growth from 1955 to 1956, reflecting intense utilization of resources, has been met by monetary policy through a reduced rate of growth in the privately-held monetary stock. For the full year 1956, the privately-held monetary stock averaged only 1.3 per cent greater than the full year 1955. During 1956 the rate of increase in the money stock, seasonally adjusted, declined. For the first two quarters, money stock averaged 1.5 per cent higher than the first two quarters of 1955. In the third quarter, it averaged .8 per cent higher than in the third quarter of 1955. In the final quarter, reflecting modest relaxation in monetary pressures, it regained a 1 per cent level over a year ago. There can be little question that the cumulative effects of slower growth in the privately-held money stock have operated to retard the further expansion of aggregate demand for goods and services in relation to output and to damp down inflationary pressures. That they have not succeeded has been due to a more active use of the existing money stock. This offset can work for a time, but eventually there is a limit reached on turnover or activity of money.

Chairman Martin called upon Mr. Thomas for a review of the credit situation and outlook, and the following statement was made by Mr. Thomas:

Credit developments in the past month have been somewhat surprising; they have also been significant with respect to System policy and perhaps ominous in their implications regarding the underlying forces at work. The magnitude and nature of credit demands, revealed by the figures as they have become known, help to explain the continued tightness

of the market and the maintenance of interest rates at a high level notwithstanding System operations that supplied so large a volume of reserve funds that member bank borrowings were the smallest in nearly 18 months. The results, moreover, raise questions as to the appropriateness of System operations under the circumstances. This is the third time in the past year that a moderate relaxing of the limitations on reserves has been followed by a spurt in the rate of credit expansion.

System operations, in accordance with the revised directive, were designed to meet expected heavy liquidity needs of this period due to seasonal and special international factors. They have in effect been conducted so as to prevent any increase in restrictive pressures beyond those previously applied and have probably relaxed pressures somewhat. It was believed that because of their reduced liquidity positions, banks might be reluctant to supply these rather large credit needs if to do so entailed much borrowing. The heavy tone of the market prevailing in these weeks and the continued rise in yields to new high levels, it was believed, reflected this reluctance. Thus System operations were guided by the "feel of the market" and the level of money rates rather than by the level of net borrowed reserves.

Continued tightness in the money market and declines in bond prices to new low levels reflected heavy pressures on credit markets. Money in circulation showed a somewhat greater than usual seasonal increase and put some drain on reserves. Required reserves, reflecting bank deposit expansion, showed a larger than projected increase. Federal Reserve float, although continuing at a high level, did not increase as much as had been projected and thus provided fewer reserves. System purchases of securities and acceptances more than covered these increased demands and provided for an actual reduction in member bank borrowing.

System open market operations exceeded both earlier projections of needs for this period and records of previous years. Holdings of Government securities and acceptances--both outright and through repurchase contracts--increased in November and December by over $1.3 billion, compared with $800 million in the same period last year. Member banks borrowings at the Reserve Banks declined and at times were below the level of excess reserves, whereas in December 1955 net borrowed reserves, although lower than in earlier months, still averaged about $250 million.

Yet the money market continued tight. Bank credit developments, as now revealed by available statistics, indicate that

the reason for the continued pressures on the market was probably very heavy credit demands rather than, or in addition to, reluctance on the part of banks to borrow or reduce their liquidity.

Total loans and investments at banks in leading cities in the four weeks ending December 26 increased by $1.7 billion--$300 million more than in the same period of 1955 and much greater than in December of any other recent year. Loan increases were particularly large in the two middle weeks. Both this year and last, banks also added about half a billion to their holdings of Government securities, reflecting in part a Treasury offering of tax anticipation securities, which was not as large this year as last. Projections had made an allowance for this financing. Business loan expansion, which since mid-year had been at a slower pace than in 1955, in December was nearly 40 per cent greater than a year ago and three or four times as large as in most other recent years. While much of the expansion represented seasonal borrowing by sales finance companies, increases were fairly widespread. Other types of loans also increased in December.

This spurt in business borrowing in December probably reflects the effect of the reduced liquidity of businesses, which had to borrow more than usual to meed end-of-year financial needs. It remains to be seen whether this increase represents an addition to credit which will continue or whether it is a temporary spurt that will be followed by a corresponding decline. In the week ending January 2, there was a much larger decrease in loans than occurred a year ago, but as compared with earlier years the decrease in commercial loans was not unusually large and the net growth for the past five weeks continued to be larger than a year ago. It will take a larger decline in loans than usual in January to offset the effect of the December increase.

Reflecting the bank credit expansion, demand deposits and currency appear to have shown a slightly greater than seasonal increase in December, following a seasonally-adjusted increase in November. While the demand deposit expansion at city banks was less than last year, time deposits showed a larger increase than usual. Interbank balances have also shown a very large increase in the past five weeks, perhaps indicating an expansion in deposits at country banks. The expansion of demand deposits adjusted and currency for the past year as a whole was only about 1 per cent, but demand deposit turnover has increased by about 8 per cent, and the time deposit growth amounted to 4-1/2 per cent.

These developments illustrate the difficulty of relying upon the feel of the market and the level of interest rates as criteria for System operations. If credit demands are excessive the money

market is likely to be tight and interest rates will tend to rise. To attempt to relieve such tightness means facilitating the expansion. The same risk can arise from relying on a particular figure of net borrowed or free reserves as a guide, but in this situation that guide was not used and net borrowed reserves declined. It is, of course, not possible to know whether smaller open market purchases by the System and thus a higher level of member bank borrowing would have reduced the volume of credit expansion that actually occurred. Nor can it be known whether any seriously undesirable results would have ensued if a more restrictive policy had been followed.

In any event, developments of the period do indicate that credit demands continue to be vigorous and if not curbed might readily become excessive. This course of events is similar to those that occurred last March and last June, when restraints were relaxed somewhat, partly because of seasonal needs and partly in those cases because of what were thought to be indications of an easing of demand pressures. They were both accompanied by renewed credit expansion.

Current developments and prospects, as already described, do not give any indication of slackening demands. The economy continues to operate at close to capacity limits with prices tending to rise. The calendar of new capital issues for January points to a volume of corporate financing of over a billion dollars for the third month in a row and for about half a billion of new issues by State and local Governments--above last year's monthly average and approximately that of 1955. If these funds can be obtained with little use of bank credit and be used in part to pay off bank loans, as is expected, these issues might permit some curtailment in bank credit. Such a possibility, however, would not appear to call for any move to relax restraint on the banks until the curtailment becomes evident.

Some slackening of demands on the short-term money market may be expected during the first half of the year, as corporations accumulate funds for tax payments and as surplus receipts are later used by the Treasury to retire debt. Prospects point to a substantial public debt retirement this year. It is uncertain whether corporations will be able to improve their impaired liquidity positions or whether they will need to increase borrowing to meet tax payments. If relaxation of demands fails to develop this year, then need for continuation of a restrictive policy will be indicated.

Customary seasonal factors might be expected to bring about a reduction of about $400 million in required reserves and $1 billion in currency during the four January weeks. The reserves thus released may be partly absorbed by a decrease of nearly $500 million in float and other factors plus over $500 million

from withdrawal of repurchase contracts and the run-off of this week's bills in the System portfolio. These changes would still leave a net free reserve position of about $300 million in the last week of the month. Return to a net borrowed reserve position for member banks of $200 million or more would require further reductions in System holdings of around $500 million. Run-offs of the next two bill maturities of $330 million would not be adequate to absorb that amount of reserves. In February some further decline in required reserves would be normal and if continued restraint seems appropriate a further reduction in System holdings would be appropriate.

These estimates assume rather substantial seasonal declines in float and in required reserves. If float fails to decline as much as indicated, additional sales would be appropriate. If required reserves fail to decline by the projected amounts, then credit contraction would be less than the usual pattern. This would suggest need for a policy of greater restraint and an increase in net borrowed reserves and would presumably be accompanied by a rise in interest rates.

Chairman Martin noted that this was the first meeting of the Committee during 1957, and he suggested that it would be appropriate to comment on any phase of operations of the Federal Open Market Committee as they had developed over the past year. Chairman Martin first asked that Mr. Hayes express his views on the economic and financial situation, together with his suggestions as to credit policy that might be followed, and Mr. Hayes made a statement as set forth below:

1. The business situation is essentially unchanged since our last meeting. While the trend of the economy is still upward, and no significant weaknesses developed in December, the upward thrust of the economy seems to be losing its momentum. We believe that the capital expenditure boom is probably leveling off, and that despite the outlook for higher government expenditures there is no factor of expansion on the horizon capable of providing the same degree of upward impetus experienced during the

past two years. Furthermore, any appraisal of our domestic situation must be tempered or hedged by the implications of the international situation with respect to trade, prices, and investment the world over.

2. In some industries there is evidence that capacity has been raised to a level adequate to meet all foreseeable demands. The decision to terminate the accelerated depreciation program may also act as a retarding influence on further expenditures in steel and other industries. The downward trend of corporate profits is not conducive to further increases in capital expenditures above present record levels, especially as the deteriorating liquidity position of corporations makes financing from internal sources increasingly difficult if cash dividends are to be maintained. Other signs of a leveling off of plant outlays include a decline in machinery orders in November below a year ago, lagging brass orders, and weakness in steel scrap and copper prices.

3. Retail sales in December were quite satisfactory. Housing activity appears to have stabilized around the level of 1,050,000 starts. It is still too early to judge the automobile industry's prospects for the current model year. Consumers are in a strong financial position, although the large automobile manufacturers speak of greater availability of consumer credit as a necessity for a successful auto year.

4. Prices are giving a mixed performance. Some important increases have been announced, including higher prices for steel "extras," cement, and electrical appliances, as well as freight rates. On the other hand, average wholesale prices changed very little in December, and the rise in the cost of living in November was less than in some recent months.

5. Demands for bank credit increased in December, with the rise in business loans for the final quarter very close to the high figure of a year earlier. Seasonal loan repayments began in the first week of January, but it is quite possible that a net increase in bank loans will again occur in the first quarter of 1957. Although it is very hard to gauge the probable extent of borrowings in March for tax purposes, most signs point to another high figure--perhaps not quite as large as in 1956.

6. Long-term capital needs of corporations are very heavy. Nearly $1.1 billion of corporate offerings are scheduled for January, as against a total of some $600 million actually sold in January of last year. Part of this heavy volume represents issues deferred during 1956; part of it also reflects the attempt to rectify inadequate liquidity positions. The capital markets are now more than ever assuming a critical position in the business outlook. Their functioning will also affect substantially the demand for bank loans.

7. It will be necessary for the System to take into consideration the heavy refunding requirements of the Treasury throughout most of the first half of 1957.

8. In view of the signs of some leveling off of the economy, the serious problems faced by the capital markets, and the Treasury's crowded financing schedule, we believe that Federal Reserve credit policy should be directed toward preventing credit restraint from becoming unduly severe. Although it would be desirable to avoid a net free reserve position, this factor should not weigh as heavily as the "feel of the market" from day to day. A program of reducing the System's bill holdings is now in order, supplementing the seasonal run-off of repurchase agreements, and we would give preference to redemptions over outright sales whenever possible; both should be handled flexibly and cautiously. As we appraise the situation, it would be desirable to allow seasonal influences to continue to exert a gradual downward pressure on Treasury bill rates toward the 3 per cent level. At all times the state of the capital markets should be a primary factor in judging the desirability of bill sales or redemptions.

9. We would be opposed to any increase at this time in the discount rate. While it has been suggested that a rise in the rate might be "realistic" and help "clear the air," we would rather see the disparity between the discount rate and market rates lessened through a seasonal tendency of market rates to decline. Such a trend would be much more helpful to the capital markets, in our view, than any rise in the discount rate, which could have seriously damaging effects.

10. We suggest that the directive to the Federal Reserve Bank of New York be changed to read approximately as follows: "(b) to restraining inflationary developments in the interest of sustainable economic growth, while avoiding undue pressures in the money, credit, and capital markets." We feel that the Committee should register its awareness of the possibility of unduly severe restraint inherent in the current low level of corporate liquidity and in the capital financing program which lies ahead. It is our view that the market should not be hindered in meeting the demands for capital that have not already been discouraged by the tightness of credit and the level of interest rates. We would not wish to impose such severe restraints upon capital formation as to impede further sound expansion of the economy's productive capacity.

Mr. Johns commented on the difficulties at this particular time of coming to a definite conclusion as to what credit policy should be but

said that, on balance, he felt that the forces in the economy were still inflationary in character. There were, however, indications of potential weakness: sales of new model automobiles were not strong in the St. Louis District, and banks that customarily financed automobile dealers were not receiving the expected number of financing arrangements. Nevertheless, Mr. Johns felt that there was little evidence that consumers would not spend their current large incomes.

On the credit situation, Mr. Johns said that he would not move toward relaxation at this time; rather, the degree of restriction that was in effect up to early December, when there was some relaxation to help meet year-end developments, should be restored. How this should be done was another question. Mr. Johns said that he would prefer that the discount rate not be increased at this time and that an attempt be made to get back to the degree of restraint that existed early in December through use of open market operations. If the System brought about net borrowed reserves in the range of $0-200 million and if borrowings from the Reserve Banks were $500 million or somewhat more, that might bring the condition he would like to see. Mr. Johns said that he would not object to a change in the directive such as Mr. Hayes had proposed although he would be quite content to leave it in its present form for the time being.

Mr. Bryan said that economic conditions in the Sixth District did not differ sufficiently from the national review that had been

presented to warrant a detailed statement. On the over-all economic situation, Mr. Bryan felt there were indications that before long we might well reach a turning point and a slowing down in economic activity, although any conclusion on this was speculative at the moment. At present, the upward and inflationary pressures were decidedly in the ascendency, Mr. Bryan said, and it was his conclusion that there should be no relaxation in the general policy of restraint that the Committee had been following. While he was not certain that there should be any increase in the degree of restraint contemplated by the general policy, Mr. Bryan felt that doubts should be resolved on the side of restraint rather than relaxation. He would attempt to prevent a decline in the interest rate structure and would be inclined to keep the bill rate well above the existing discount rate. Mr. Bryan also said that at the moment he would not change the discount rate but would pursue a policy of watchful waiting for the next two or three weeks in an attempt to determine whether the situation warranted an overt and dramatic upward movement in that rate, which he thought might well occur. As to criteria for open market operations, Mr. Bryan did not think free reserve figures were particularly useful at the present time and he doubted that member bank lending activities could be used as a guide during the next few months. His inclination would be to use interest rate considerations as a guide. Mr. Bryan concluded his statement with the remark that he would prefer to make no change in the Committee's directive at the present time, not because he was opposed to a change but because of the difficulty of explaining it.

Mr. Szymczak pointed out that Mr. Hayes' suggestion for a change in the directive was partly for the purpose of eliminating a reference to seasonal conditions that had existed as the year-end approached, and Messrs. Bryan and Johns both indicated that their comments on a change in the directive would not apply to a removal of the reference to seasonal factors no longer present.

Mr. Williams said there was little to report regarding developments in the Third District economy except that the spurt in department store sales just before Christmas had resulted in bringing the sales total for the month up quite sharply. He reported conversations regarding monetary policy with bankers in the Third District, stating that there were many compliments on the present restrictive policy and few complaints. Bank earnings were good and banks generally were appreciative of the System's efforts to explain monetary policies. In Philadelphia, demand for credit was regarded as strong for the coming year. Mr. Williams reported a discussion at the most recent meeting of the directors of the Federal Reserve Bank of Philadelphia, at the conclusion of which it was clear that the directors would prefer to defer taking action on the discount rate at this time. However, Mr. Williams felt that they would move to increase the rate if, as a result of System-wide discussion and decision, it was the consensus that an increase was called for. He also stated that the Discount Committee of the Philadelphia Bank felt that a case could be made for an increase in the rate but that such action should be taken only

after System-wide discussion and achievement of a consensus. Mr. Williams' personal view was that any errors in carrying out open market operations should be on the side of restraint during the next few weeks. Judgments of businessmen were preponderantly on the optimistic side and the System should be taking that factor into consideration.

Mr. Fulton said there were still no pessimists in the Cleveland District. Bankers expected small loan reductions during the first quarter of the year with considerable increase in March for tax borrowing. Bankers also reported that money rates were not a deterrent to borrowing demands, he said, and they observed little restraint on the part of seekers of credit. A few contemplated capital expenditure programs had been postponed but where plans had actually been completed, projects were going ahead. Automobile credit extensions for new cars were largely on a 36-month basis. Inventories were causing little or no apprehension, although in the case of cold-rolled steel items warehouse stocks were somewhat heavy because takings by the automobile industry had not been as large as anticipated. The coal industry, which had been depressed, was now making satisfactory profits. High tobacco prices were providing good incomes to farmers in tobacco areas. Steel operating rates would be lower during the first quarter of this year than in the last quarter of 1956, owing to increased capacity. Banks would tend to use any reserves they might receive to make additional loans, Mr. Fulton said, and his general view was that the Committee should get back to a significant degree of restraint. To

this end, he suggested that clause (b) of the Committee's directive be amended to call for operations with a view "to restraining inflationary developments in the interest of sustainable economic growth, with due regard for the orderly functioning of the capital markets."

Mr. Shepardson suggested that during the past year the Committee had been unduly "skittish" about making its policy too restrictive, with the result that it had not quite achieved its objective. He felt that the economic and credit reviews and other information presented at this meeting brought out clearly the fact that inflationary forces were still in the ascendency. The Committee should try to recover promptly at least the degree of restraint that existed a month ago, getting back during the next two or three weeks to a negative free reserve figure, and bringing about increased borrowing at the Federal Reserve Banks. Mr. Shepardson also felt that not later than the next meeting serious consideration should be given to an increase in the discount rate. As to the directive, his preference would be to eliminate that part of clause (b) appearing after the word "growth" and not to make the insertion suggested by Mr. Hayes.

Mr. Robertson said that he agreed with the views expressed by Mr. Shepardson. He was glad that the Committee's policy over the past year had been as restrictive as it had been and was sorry that it had not been more restrictive. Having in mind the information brought out by the economic review and the extent to which the dollar had

depreciated during the past year, he wondered whether the System was not partly responsible for the rise in the price level. While he did not think monetary policy could be used to offset all factors that had given rise to the price advances, Mr. Robertson suggested that the Federal Reserve was responsible in part for having permitted certain factors to develop. For example, wage increases out of line with increases in productivity might have been tempered by a more restrictive policy at times. He felt that at times the Committee had erred unduly on the side of ease. In suggesting that policy should have been more restrictive, Mr. Robertson said that he felt the Committee had been unduly fearful that actions it might take would result in a depression and that it had feared this result more than the danger of upward movements in prices.

With respect to actions to be taken during the next few weeks, Mr. Robertson felt that although the boom might be topping out, there was not sufficient evidence to warrant any relaxation in credit restraint at this time. By the next meeting and perhaps before the System should be giving serious consideration to an increase in the discount rate. As to the Committee's directive, Mr. Robertson said he could see no good reason for not taking out the reference to seasonal factors that had been put in the directive on November 27, 1956, in anticipation of the year-end pressures; the matter did not seem to him to be important, so long as the directive was not changed in a way that

would indicate any intent to relax.

Mr. Mills said that in considering the System's monetary and credit policy, he would like to take Mr. Thomas' comments as a point of departure for diverting the discussion into less conventional channels than had been followed thus far. Referring to Mr. Thomas' mention of the rapid December rise in bank loans, he pointed out that we could not tell now what contraction would follow that rise. It was known, however, that during December the System supplied a very substantial amount of new reserves and that theoretically the effect of that injection of reserves through the process of arbitrage might have been expected to have tended to stabilize the prices of intermediate and long-term U. S. Government securities. The fact that this did not occur suggested that the time may have come for the Committee to reorient its ideas from the policy that it had been properly following over the past two years.

In Mr. Mills' judgment, there would seem to be a problem of credit availability, not in the area of commercial bank credit, but rather a problem of credit availability in the capital markets. This raised the question of the System's responsibility to the capital markets. While he did not believe this to be a primary responsibility, he did feel that there was a secondary responsibility for the System's policy to work to the benefit of the capital markets where actions could be taken that were not in conflict with the general System policy objectives of credit restraint. To that end, he cited that

the money supply had increased 1.3 per cent during 1956 and that such an increase, related to economic growth factors, had seemingly been followed by an increase in the size of the System's portfolio. Therefore, considering the abnormally strong demands on the capital markets and the insufficient supply of savings with which to meet those demands, Mr. Mills proposed that thought be given by the Committee to converting the past year's increment in the size of the System's portfolio from Treasury bills into longer-term U. S. Government securities. He explained that the process of implementing such a plan would, of course, have to be gradual and as necessity dictated. He also pointed out that such a conversion would not raise a future problem of how the U. S. Government bonds thus acquired for the System's portfolio might subsequently be disposed of without causing investor misunderstanding of the Committee's policy intentions, inasmuch as they would represent permanent increases in the size of the System's portfolio, whose long-run growth is anticipated.

Mr. Mills foresaw that a helpful result of this plan under present conditions would be to remove the overhang of U. S. Government bonds pressing on the market and in so doing allow the offsetting equivalent to become available for investment in the capital markets. In turn, an improved market psychology could be expected, which of itself would check the fall in bond prices and attract to the bond market savings whose investment had been deferred awaiting more stable

market conditions. All in all, Mr. Mills felt that the Committee should look carefully into the question of reorienting its policy along these lines, and he also called attention to the fact that the adoption and judicious use of such a policy could prove to be a preventive to possible disorderly market conditions and a need for more drastic actions. Simultaneous action by way of reducing the System's holdings of Treasury bills and increasing its holdings of U. S. Government bonds suggested itself as the most practical way for effectuating such a policy which actions would not, of course, stand in the way of the System's current withdrawal of whatever amount of reserves is needed to exert an appropriate degree of credit restraint on the commercial banking system.

Mr. Mills concluded by saying that he felt there should be no change in the discount rate at the present time and that a rephrasing of the directive along the line suggested by Messrs. Hayes and Fulton would be acceptable. He also suggested that it might be desirable to have another meeting of the Committee two weeks hence rather than three weeks from today.

Mr. Leach said that the Fifth District economy continued to show strength in its basic industries. Cotton textile order backlogs were shrinking but current production was being well maintained. Bituminous coal output was expected to continue at a high rate. Shipyards, boosted by the tanker construction program, were showing peacetime

highs in orders. On the less optimistic side, synthetic textiles were weak and contract awards were not holding up as well in the Fifth District as in the rest of the country.

Mr. Leach went on to say that he could see no indications of weakness at the national level that would justify a relaxation in the basic policy of restraint. Now that the year-end needs were behind us, the Committee should take action to recapture the reserves that were supplied in the closing weeks of 1956. Mr. Leach did not suggest any figure of net borrowed reserves as an objective, but he expressed the view that an appropriate policy would bring about an increase in borrowing from the Reserve Banks and disappearance of free reserves from the weekly reports. Changes in bank loans and in the capital markets should be observed carefully during the next few weeks. No change should be made in the discount rate at this time but by the time of the next meeting there might be reasons why a change in that rate would seem desirable. Mr. Leach said that he felt it necessary to eliminate from clause (b) of the directive the reference to seasonal factors and his preference would be to eliminate all the clause except the direction to restrain inflationary developments in the interest of sustainable economic growth. He said that he did not agree that the Reserve System had no responsibility for price increases resulting from nonmonetary factors, it being his feeling that the System should attempt to hold down such increases regardless of the fact that pressures might cause prices to rise.

Mr. Leedy said that the President's forthcoming visit to the drought area might focus attention on that section of the Tenth District in a way that would create the impression that conditions were worse than they really are. While the situation was distressing, Mr. Leedy felt that the outlook for income during the next year was not particularly bad. As to credit policy, he suggested that the Committee regain the tightness that existed before the year-end additions to reserves were made. It was apparent from the projections that sizable open market operations would be required to bring about an appropriate degree of tightness. Mr. Leedy said he would not subscribe to the view that the Committee attempt to work down the bill rate, his feeling being that the primary objective should be to bring the reserve position of banks under pressure. Bill rates should be allowed to go where they would, so long as conditions remained orderly. Mr. Leedy said he would not recommend a change in discount rate at this time. As to the directive, he agreed that the reference to seasonal factors that had applied before the year-end should be eliminated, but he would prefer not to substitute anything in its place along the lines suggested by Messrs. Hayes and Fulton.

Mr. Allen said that Seventh District business remained strong. Manufacturing employment was at a high level even though it was not so high as a year ago at most automotive factories. Agriculture was continuing to show improvement, but Mr. Allen pointed out the prospect of increased acreage of corn plantings during 1957 with subsequent increase in hog production.

Seventh District banks have not shared fully in the growth of business, Mr. Allen said, the relatively small rise in Seventh District loans reflecting the fact that the metal and metals products and sales finance industries were of great importance in that region. Automotive and farm implement areas were the only parts of the district having much in the way of unused resources. Despite the fact that the utilities and chemical companies in particular would probably borrow more money in 1957 than in 1956, Mr. Allen said that there were signs of a leveling off in capital expenditures. On the other hand, inflationary factors seemed as strong as ever and his view was that at least the current degree of restraint should be maintained. Mr. Allen said that he had not understood that the Committee had changed its policy in late November or carly December in directing operations to meet year-end pressures. He would not change the discount rate at this time and, while he did not object strongly to the suggested change in the Committee's directive made by Mr. Hayes, he concurred in the view expressed by Mr. Leedy that it would be sufficient merely to eliminate the clause that had been inserted in November relating to seasonal factors.

Mr. Powell said that the Ninth District was benefiting somewhat from higher prices for agricultural products; this was bringing marked improvement in the farmers' position and might result in increased purchases of such items as farm implements during 1957. Nonresidential building continued active while residential building had declined

somewhat. There were fewer unsold completed houses at the present time than there had been a few months ago, but builders were projecting a lower level of building operations for the next year.

With respect to the banking situation, borrowings from the Minneapolis Reserve Bank by city members had started to increase but country banks were not borrowing heavily either at the Reserve Bank or in the Federal funds market. Mr. Powell said that he would concur in the proposed deletion of the latter part of clause (b) of the Committee's directive.

In response to the Chairman's invitation for additional comments on the Committee's operations, Mr. Powell said that he hoped that during the coming year the Committee would have an opportunity to reappraise its open market objectives and performances. He would like to see a study of the nature of the price increases that had been occurring and the share of responsibility the System had for those price increases. It should also consider whether some of the price increases in the case of agricultural products were desirable. Mr. Powell said he would also like to see an appraisal of the extent to which price increases in industry had been caused by previour wage increases, and it might be desirable to study the magnitude of wage increases being proposed for the current year and their possible effects. Another factor that might be studied would be the effect of the capital boom on business volumes and the effect on prices of substitution of machinery for human labor.

Mr. Mangels said that in the Twelfth District there had been a continuation during the past month of the modest expansion that had been experienced during most of 1956. Employment showed a greater than normal increase in November although insured unemployment claims rose slightly in November reflecting the close of the canning season. Mr. Mangels felt there was a possibility of further expansion in employment in 1957 with the completion of a number of plants that had been under construction in the past year. There had been a substantial increase in total construction during 1956, primarily in the nonresidential segment. Lumbermen expected some pickup in demand this spring but 1957 demand was not expected to exceed that of 1956.

Bank loans in the Twelfth District increased during December at about the same rate as in the country as a whole, Mr. Mangels said, although the Twelfth District increase for 1956 was about 14 per cent compared with an increase of 11 per cent in the national total. Bankers feel there will continue to be good demand for credit during 1957. Borrowings at the Reserve Bank have been nominal recently. In general, Mr. Mangels felt that we were entering another period of increased pressure on banks for credit, and this would hold true despite any modifications in business plans for capital expansion. A factor that might have an influence in the Twelfth District was the recent increase to 3 per cent generally in rates to be paid on savings deposits, with the indication that banks might try to make more loans as a means of helping to pay the increased interest costs.

As to credit policy, Mr. Mangels felt there should be some tightening in the program of restraint although this should not be excessive. The cumulative effects of the restraining actions of the past year were still with us, he said, and banks were very conscious of the restrictive program. On the Committee's directive, Mr. Mangels would prefer to delete the reference to seasonal factors appearing in clause (b) without addition of any other words. He would make no change in discount rate at this time but he felt it almost inevitable that if conditions continued as at present, serious consideration would have to be given to such an increase within the next few weeks.

Mr. Irons said that the statements by Messrs. Young and Thomas had described his impression of the general economic situation, that is, it was one of real strength with relatively full utilization of our resources and with an inflationary threat continuing. Conditions in the Dallas District did not differ significantly from national conditions. Banks did not seem to be under pressure and were not borrowing much from the Dallas Reserve Bank. Demand for 1957 model automobiles had not yet shown up as particularly strong.

Mr. Irons felt the Committee should recapture more or less the degree of restraint it was achieving in mid-November before operations were modified for the closing weeks of the year and in the light of developments in the capital markets. At that time the thought was that while restrictive policy of the Committee continued in effect, the probable margin of error in administering the policy should be kept on

the side of ease. Mr. Irons stated that during the past month or so it had appeared, at times, that prime consideration was being given to the state of the capital markets; reserves were supplied more liberally than would otherwise have been the case, with a consequent lessening of pressure on bank reserve positions. Now, he felt that the probable margin of error should be shifted to the side of tightness and that prime consideration should be given to the developing economic and credit situation, while still observing conditions in the Government securities market closely toward the end of preventing any real disorder from developing in the market. This would not mean a policy of contraction, but a restoration of a somewhat greater degree of restraint. Mr. Irons said under such a policy he would anticipate a higher level of net borrowed reserves, a Treasury bill rate in the 3-1/4 per cent area with no attempt on the part of the System to bring down the bill rate toward the discount rate, and an increase in member bank borrowing. If member bank borrowing increased materially under such a program, it might become desirable to increase the discount rate but he would prefer that it not be increased at this time. The question could be considered very seriously at the next meeting of the Committee. Mr. Irons said he would favor changing the Committee's directive but he questioned the desirability of trying to pinpoint minute changes. His preference was that the directive indicate in broad terms the policy, and that any more detailed comments for the

benefit of the Management of the Account appear in the record of the discussions in the meetings. Specifically, Mr. Irons would like to see clause (b) of the directive restored to the wording used before it was changed at the meeting on November 27, 1956. He questioned whether the Committee should give primary attention to the capital and securities markets in the directive but this did not indicate a reluctance to have the Committee and the Account Management observe the capital markets carefully.

Mr. Erickson said economic conditions in the First District were still strong although the upward impetus was not as strong as it had been a few months ago. Textile mills were not in as strong a position as they were last summer. In fact, a large textile operator with mills in a number of New England cities had last week announced a three-day week, blaming the curtailment on Japanese competition. Automobile registrations in October and November 1956 were well below the corresponding months of 1955. A representative of the Ford Motor Company had called the Boston Bank by telephone from Detroit to inquire about conditions in the automobile trade in New England. He said that he was also going to contact all of the Federal Reserve Banks. Mr. Erickson said that he had the same impressions regarding the outlook for bank loans as those given by Mr. Fulton in his comments. He recommended no change in the discount rate at this time and would use open market operations to recapture the restraint that existed last November. Mr. Erickson felt the directive should be changed to

eliminate the reference to seasonal factors no longer present and he, too, would prefer that clause (b) of the directive be made to read as it had prior to the change at the meeting on November 27.

Mr. Erickson went on to say that, considering all the nonrecurring factors, at least he chose to consider them nonrecurring, that had affected the situation during the past year, such as the President's illness, the steel strike, and developments in the Middle East, he felt the Open Market Committee and the Account Management had done a very good job. He did not feel, as Messrs. Shepardson and Robertson had indicated, that the Committee had not done a good job. It might be that the difference in views was a matter of degree, Mr. Erickson said, adding the comment that hindsight was better than foresight.

Mr. Szymczak said that he felt an excellent review had been presented by Messrs. Young and Thomas. The important consideration for monetary policy during the first half of 1957 would be the Treasury, which would have to come to the market several times. He felt that, to the extent possible, the Committee should return to the policy it was pursuing prior to the shift in December, although he did not know whether this could be done at once. To the extent that the Management of the System Account was unable to sell bills, it should allow maturing bills to run off. If conditions in the money market seemed to require more reserves at times, the Account Management could make repurchase agreements readily available. If the degree of tightness

that prevailed last November and early in December were restored, it would inevitably bring a change in the discount rate. Mr. Szymczak felt that demand for credit would continue strong and the discount rate would have to be considered eventually although he would not today recommend a change.

Mr. Szymczak referred to Mr. Mills' comments, which he described as a proposal for a study of the subject of swaps since, if the account were to reduce bill holdings and replace them with intermediate or long-term Treasury bonds, the operation would be about equivalent to a swap. Mr. Szymczak said he would recommend the Committee undertake a study such as Mr. Mills had proposed. He felt the Committee had a responsibility to the capital market, although he questioned whether that should be written into the Committee's directive or otherwise appear in the record of policy actions.

As to the directive, Mr. Szymczak said that it seemed necessary to eliminate the reference to seasonal factors that had been put in last November because of anticipated developments up to the year-end. While he had no strong objection to the proposals made by Messrs. Hayes and Fulton, his preference would be to return clause (b) to the form in which it appeared prior to the change on November 27.

Mr. Balderston stated that he would delay action on the discount rate until there had been an increase in member bank borrowings. Such an increase should be forced by returning to a greater degree of restraint through the withdrawal from the market of all of the $1,300

million that had been put in during November and December. The heavy calendar of capital securities during the weeks ahead and the expectation of a large increase in bank loans prior to the March tax date prompted Mr. Balderston to suggest that the Committee adopt a firm posture at once, one that would serve notice on both lenders and borrowers that the System was opposed to the use of short-term credit for long-term purposes. He also favored eliminating that part of clause (b) of the Committee's directive that had been added at the meeting on November 27.

Chairman Martin said that, as Chairman of the Board, he had received a good many comments recently to the effect that the System had been very lucky in 1956 but that in 1957 it would "really fall apart." Personally, however, he had felt more encouraged about the System in the last few months than at any time since he had been associated with it. This was because of the way in which each Board Member and Reserve Bank President was "pulling his weight and thinking for himself." As long as the Open Market Committee was active and working and aware of the problems as indicated in discussions such as this morning's, the Chairman said he questioned very much whether the System need worry a great deal.

Referring more specifically to the statements made during this meeting, the Chairman said that he felt this had been an impressive session. He mentioned several suggestions that he felt were especially helpful and stated that the discussion regarding the directive and

what it should or should not contain also had been useful. While he had no firm feeling about the question, there was some advantage in having the directive reflect modest changes from time to time as a means of indicating that the Committee was alert to changing conditions, and active in adjusting its operations. This was important, he said, and he did not think the Committee should underestimate the value of indicating in the directive from time to time small shifts in policy.

As to specific changes for the directive, Chairman Martin said he would favor the use of wording such as Mr. Hayes had suggested although his feeling on this was not strong. He had received a number of inquiries from members of Congress within the past few days about the Government securities market and these indicated the awareness of the public to the fact that United States Treasury bonds currently were selling at 88-1/2 or 89. Some of the calls were along the lines of inquiring whether the Federal Reserve felt a responsibility for the market for Government securities. While clause (a) of the directive could be taken as recognizing this responsibility, there was some merit in having a more specific reference in the directive. There would be recurring pressure for the Committee to give out more information on its decisions and operations, the Chairman said, and it would be desirable to give further consideration to the directive in the light of such pressures.

The Chairman went on to say that, having widened the group of persons attending these meetings, all of us must realize that many

persons have a great interest in knowing the purport of discussions at open market meetings. This placed a very special responsibility on each person attending the meetings to use care in talking with individuals so as to avoid becoming a source of information regarding open market discussions. This did not reflect a lack of confidence in anybody, he noted, but was something all of us should bear in mind.

So far as current policy formation was concerned, Chairman Martin said he felt it important to bear in mind that if the System were to perform the job it should be doing, it could not be a one-man operation or a group operation; decisions could not be made by the Presidents nor could they be by the Board. There must be a "System" and there must be a consensus of thinking in arriving at decisions. Chairman Martin said he thought the Committee should avoid as far as possible taking votes on specific issues and should rely on a procedure of trying to get a consensus, particularly since discussions were often in terms of degrees and not distinct differences. It was not realistic to try to vote on shades of meaning or color in the market. He felt the minutes of the meeting should be used as a guide to the level of open market operations and that the minutes should reflect the thinking of the persons at these meetings and a consensus of the views expressed. To do this, it was necessary at these meetings to go through the process of expressing views and assessing all the facts. Chairman Martin said that he was convinced at the beginning of 1957 that the

essential nature of these meetings should continue to endeavor to get a consensus of thinking.

Chairman Martin suggested that the Committee might also wish to consider whether the meetings tended to become too long and whether it would be desirable to divide them into two sessions. While those attending did not wish to make speeches just for the sake of making speeches, he had found no substitute for the procedure that had been followed of "going around the table" and having each person express his views. He hoped, he said, that this would be done without having any person feel that an expression of views in the "go around" would bind him to that same view or same shade of thinking in trying to arrive at a consensus.

Chairman Martin said he aligned himself completely with the comments to the effect that the Committee should recapture the degree of tightness that existed in late November or early December. At the same time, he noted Mr. Allen's comment that he had not understood in November that the Committee contemplated any change of policy, but rather had adapted that policy to seasonal developments. Chairman Martin said that he had not had the idea at the meeting on November 27 or on December 10 that there was any change of policy. However, the status quo had been affected by seasonal pressures and it would now be desirable to recapture the degree of restraint that was involved in the Committee's operations around the first of December. The System should put the market to a test, and it should take a

careful look at the discount rate; but it should not overlook the fact that peculiar strains exist in the capital markets today, peculiarities brought about by errors of judgment in the use of short-term credit for long-term needs, by improper and improvident plans for plant expansion, and by using tax money for expansion. There were still many buildings that had gotten up to the third floor, so to speak, and for which there still were no real plans for their financing. These conditions could produce a situation which would be in the nature of a knot in 1957, and if that resulted the repercussions might be great.

The consensus seemed to be that operations should be directed toward recapturing the degree of restraint that existed early in December, Chairman Martin said, always looking at the effects of such operations on the money market. None of the members of the Committee could know whether the boom was tiring, the Chairman remarked, although his reading of some 50 year-end business reviews convinced him that the prognosticators were tiring.

Chairman Martin also referred to the directive, stating that there seemed to be some difference of feeling on the desirability of a change. He reiterated the comment that recognition in the directive of shifts in policy had a good deal of merit, particularly at a time like this when the Committee had completed the first two years of a restrictive monetary policy during which the capital markets had been moving against that policy. Chairman Martin went on to say that he

discussed with Mr. Riefler the question of the directive before this meeting and that he was prepared to suggest a change in clause (b) of the directive to delete the present wording after the word "growth" and to change it so that it would read "to restraining inflationary developments in the interest of sustainable economic growth, while recognizing unsettled conditions in the money, credit, and capital markets." His inclination now was to prefer the wording Mr. Hayes had suggested, but he did not think the matter of great importance. There followed a discussion, in the course of which Mr. Hayes expressed the view that the wording proposed by the Chairman was entirely satisfactory. Out of this discussion came agreement that clause (b) of the directive should be changed to delete the words "while recognizing additional pressures in the money, credit, and capital markets resulting from seasonal factors and international conditions," and that it should be restated to read "to restraining inflationary developments in the interest of sustainable economic growth, while recognizing unsettled conditions in the money, credit, and capital markets and in the international situation."

In response to Chairman Martin's request for comments, Mr. Rouse said that he felt he understood the wishes of the Committee. He referred to comments that had been made during the meeting regarding the volume of net borrowed reserves that had existed recently, stating that he did not construe these comments as indicating unfavorable criticism of the operation of the System account during

the past month. Mr. Rouse noted that at all times the account had considered the policy of restraint as still in effect and that the funds put into the market were only put in in the light of the policy of restraint. He pointed out that on the average there had been negative free reserves in recent weeks although there had been positive free reserves in the market on a few days. He felt that it would be possible to accomplish a return to the situation that existed in early December or the latter part of November in terms of the spirit, but not perhaps in terms of the figures, of net borrowed reserves. The account would, of course, make every effort to carry out the views of the Committee. In a further comment in response to a question from Mr. Balderston, Mr. Rouse noted that repurchase agreements had already been brought down to $47 million and he reiterated his statement that he felt it would be possible to recapture the spirit although not the amount of net borrowed reserves that existed early in December.

Mr. Hayes said that the longer-term Government securities market had been on the verge of becoming a real problem. Pressures of the tremendous offerings that would be coming along could result in a recurrence of this problem, and Mr. Hayes said that he hoped it would be understood that if such circumstances developed the System account could not march bravely ahead and sell a large volume of Treasury bills regardless of the consequences. This did not imply, however, that we would not get back to some degree of negative free

reserves and some increase in borrowing at the Reserve Banks.

Mr. Hayes then referred to the suggestion made by Mr. Mills that the System account might operate in securities other than bills, stating that while the desirability of this could develop during the next month or two he doubted whether it would become an urgent need. He did not feel that it had been an urgent need in recent months. He would definitely be against doing anything along the lines of Mr. Mills' suggestion at the present time if for no other reason than because the market had a distinct feeling that the rule of "bills only" was an inflexible rule. Any departure at this time would be subject to misinterpretation; the market might think either that the System was worried about a disorderly market or that the Committee had decided to turn the market around. However, Mr. Hayes believed that there was merit in Mr. Mills' suggestion, since he (Mr. Hayes) had never believed that the Committee had intended that there should be an inflexible rule that would have to stand forevermore. Perhaps it should be restudied from time to time, he said, and it would be healthy if some time in the course of the year the matter could be reviewed, possibly at the time of the annual meeting.

Chairman Martin said that he was glad Mr. Mills had raised the question and that the Committee should review the matter. He did not think it urgent at the moment and suggested that the proposal be left with the understanding that he (Chairman Martin) would try to bring

in a suggestion at the time of the next meeting of the Committee as to how the review proposed by Mr. Mills might be made. It was understood that this procedure would be followed.

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 recognizing unsettled conditions in the money, credit, and capital markets and in the international situation, 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 referred to the memorandum from Mr. Riefler distributed under date of January 4, 1957, stating that Mr. Frank Southard, U. S. Executive Director of the International Monetary Fund, had inquired whether the Federal Reserve System would see objections to use by the Fund of some of its gold holdings in meeting prospective drawings against the Fund. Attached to Mr. Riefler's memorandum was a memorandum from Mr. Southard addressed to the Managing Director of the International Monetary Fund under date of January 2, 1957, presenting the reasons for such use of gold holdings, as well as a memorandum from the Board's Division of International Finance dated January 4, 1957, providing background information for consideration of the topic.

Chairman Martin said that he had considered this matter and had come to the conclusion that it would be desirable for the Committee to respond to the inquiry by stating that it would express no views with respect to the form in which the International Monetary Fund might choose to draw upon its dollar resources. This action would be taken, he indicated, as a means of preserving the utmost freedom to the International Monetary Fund in meeting its problems and in the hope that the Fund would inform the Federal Open Market Committee in advance of its operations in the American market.

The Chairman went on to say that he felt the System should not tell the Fund or any other agency how it should carry out its responsibilities. In keeping with this, the System should follow monetary policies that fitted the circumstances whenever external factors occurred. Thus, if the Committee approved the resolution he was proposing, he would also want it to be understood that the Committee's operations would be used to offset the influence of the operations of the Fund in accordance with whatever the Committee's policy might be. In this specific case, the System might not have a sufficient volume of bills to carry through this procedure and Chairman Martin suggested that if approval were given to the resolution, the Committee also expressly authorize the Management of the System Account to sell up to $500 million of Treasury certificates if it became necessary to do so as a means of offsetting the Fund's operations. If this were to be done he suggested that the Account Management might wish to notify dealers in advance. The Chairman noted that if Treasury certificates were used it would be in keeping with the Committee's general policy of effecting its operations in short-term securities, preferably bills.

Mr. Hayes stated that he had given some thought to this question since receiving Mr. Riefler's memorandum and that the net result of his consideration was that he had arrived at essentially the same position as that stated by Chairman Martin.

With this thought in mind, Chairman Martin said that he would propose adoption by the Committee of a resolution as follows:

RESOLVED, that the Federal Open Market Committee express no views with respect to the form in which the International Monetary Fund chooses to draw upon its dollar resources.

Upon motion duly made and seconded, and by unanimous vote, the Committee approved the foregoing resolution presented by Chairman Martin, with the understanding that in transmitting the substance of the resolution to Mr. Southard he would be informed that the Open Market Committee appreciated having had an opportunity to know of and consider the proposal.

In taking this action, the Committee also unanimously approved Chairman Martin's suggestion that it expressly authorize the System account to sell up to $500 million of Treasury certificates if that became necessary in connection with operations related to the transactions of the International Monetary Fund.

Secretary's note: In accordance with the foregoing action, the following letter was sent to Mr. Frank Southard, U. S. Executive Director, International Monetary Fund, by the Secretary under date of January 8, 1957:

"The question which you presented informally last week as to whether the Federal Reserve System would see objections to the use by the International Monetary Fund of some of its gold holdings in meeting prospective drawings against the Fund was discussed today at a meeting of the Federal Open Market Committee. In addition to the members of the Committee, all Reserve Bank Presidents who are not now members of the Committee were present.

"At the conclusion of the discussion of the question which you raised, the Federal Open Market Committee agreed that it would express no views to the International Monetary Fund with

"respect to the form in which the Fund chooses to draw upon its resources. This action was taken to preserve the utmost freedom to the International Monetary Fund in meeting its problems and in the hope that the Fund will inform the Federal Open Market Committee in advance of its operations in the American market.

"In taking this action, the Open Market Committee expressed its appreciation for having had an opportunity to know of and consider your proposal. None of the Reserve Bank Presidents who are not currently members of the Committee indicated disagreement with the action taken by the Federal Open Market Committee regarding the proposal."

Chairman Martin stated that in presenting the resolution that had been adopted, he had in mind that it should be included as a part of the record of policy actions to be reported to the Congress at a later date, and there was no disagreement with this suggestion.

Mr. Robertson referred to the authorization for transactions in Treasury certificates, stating his understanding that when the "bills only" policy was adopted, there was an implication that if the System account ran out of bills, its transactions would be conducted in the next shortest maturity.

Mr. Rouse stated that it was his understanding that this would not include certificates now showing rights values but would include the shortest type of Treasury issues, i.e., certificates, and there was concurrence in this comment.

In a discussion of the date for the next meeting of the Committee it was agreed to schedule a meeting for Tuesday, January 29, 1957, at 10:00 a.m., it being noted that a meeting of the Conference of Presidents had tentatively been arranged for January 28 with a joint

meeting of the Presidents and the Board to be held on Tuesday afternoon, January 29. In taking this action it was understood that if need arose the Federal Open Market Committee could call an additional meeting if desirable, to be held by means of a telephone conference hookup, prior to January 29.

Chairman Martin also called attention to a request that had been received from the Bureau of the Budget unier date of January 3, 1957, for comments on a draft bill "to establish a national monetary and financial commission." At his suggestion, there was distributed to each of the Presidents of the Reserve Banks at this time a copy of the Budget Bureau's request, along with a copy of the draft bill and a copy of the Board's reply that had been sent to the Budget Bureau on January 7, 1957.

Thereupon the meeting adjourned.

Secretary