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 5, 1957, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hayes, Vice Chairman
Mr. Allen
Mr. Balderston
Mr. Bryan
Mr. Leedy
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Vardaman
Mr. Williams

Messrs. Fulton, Irons, Leach, and Mangels, Alternate Members of the Federal Open Market Committee

Messrs. Erickson, Johns, and Powell, Presidents of the Federal Reserve Banks of Boston, St. Louis, and Minneapolis, respectively

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Atkinson, Bopp, Marget, Mitchell, Roelse, Tow, 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. Abbott, Daane, and Rice, Vice Presidents, Federal Reserve Banks of St. Louis, Richmond, and Dallas, respectively; Mr. Ellis, Director of Research, Federal Reserve Bank of Boston; Mr. Balles, Assistant Vice President, Federal Reserve Bank of Cleveland; Mr. Hellweg, Economist, Federal Reserve Bank of Minneapolis.

Mr. Riefler reported that advices of the election by the Federal Reserve Banks for a period of one year commencing March 1, 1957, of members and alternate members of the Federal Open Market Committee had been received, and that each newly elected member and alternate member, except Mr. Treiber, had executed the required oath of office. The form for the oath of office had been sent to Mr. Hayes for execution by Mr. Treiber upon his return from abroad. The members and alternate members were as follows:

Alfred Hayes, 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;

Alfred H. Williams, President of the Federal Reserve Bank of Philadelphia, with Hugh Leach, President of the Federal Reserve Bank of Richmond, as alternate member;

Carl E. Allen, President of the Federal Reserve Bank of Chicago, with Wilbur D. Fulton, President of the Federal Reserve Bank of Cleveland, as alternate member;

Malcolm Bryan, President of the Federal Reserve Bank of Atlanta, with Watrous H. Irons, President of the Federal Reserve Bank of Dallas, as alternate member;

H. G. Leedy, President of the Federal Reserve Bank of Kansas City, with H. N. Mangels, President of the Federal Reserve Bank of San Francisco, 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, 1958, 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
Alfred Hayes	Vice Chairman
Winfield W. Riefler	Secretary
Elliott Thurston	Assistant Secretary
George B. Vest*	General Counsel*
Frederic Solomon	Assistant General Counsel
Woodlief Thomas	Economist
Thomas R. Atkinson, Karl R. Bopp, Arthur W. Marget, George W. Mitchell, Harold V. Roelse, Clarence W. Tow, and Ralph A. Young	Associate Economists

*In taking the foregoing action, the Committee also voted unanimously that, upon Mr. Vest's retirement from active service as a member of the staff of the Board of Governors of the Federal Reserve System on March 31, 1957, he would be succeeded as General Counsel of the Federal Open Market Committee by Mr. Howard H. Hackley, who had been selected by the Board to succeed Mr. Vest as its General Counsel.

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, 1958.

Mr. Hayes 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.

> Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on February 18, 1957, were approved.

Chairman Martin referred to a memorandum that had been distributed under date of February 27, 1957 relating to the procedure authorized at the meeting 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 other Reserve Bank President, with notice to the Secretary. He suggested that unless there were suggestions for change in the procedure it be continued without modification, with the understanding that current lists of the authorizations by the members of the Committee and the Reserve Bank Presidents would be furnished to the Secretary.

Chairman Martin's suggestion was approved unanimously.

The Chairman next 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 14, 1957 from Mr. Rouse and Mr. Leonard, Director of the Board's Division of Bank Operations, with respect to allocation of securities in the open market account under the procedure that became effective September 1, 1953, pursuant to the action taken by the Committee at the meeting on June 11, 1953. There had also been distributed on March 4 a tabulation containing a pro forma reallocation based on the ratios of each Bank's average total assets to the total for all Reserve Banks for the period March 1, 1956-February 28, 1957.

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, as adopted pursuant to the action of the Committee on June 11, 1953.

Unanimous approval was given to the 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 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 two Assistant Vice Presidents of the Federal Reserve Bank of New York working under the Manager of the System Account; the Manager 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.

Unanimous approval was given to the continuation of the authorization given by the Committee at its meeting on March 6, 1956 to the Manager of the System account to engage in transactions on a cash as well as a regular delivery basis.

Unanimous approval was given to the renewal without change of the following authorization to the Federal Reserve Bank of New York to purchase bankers' acceptances and to enter into repurchase agreements therefor, such authorization last having been amended at the meeting of the Committee on November 27, 1956:

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 $50 million and provided further, that such holdings shall not be more than 10 per cent of the total of bankers' acceptances outstanding as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York.

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.

The Committee approved by unanimous vote a renewal of the following authorization to the Federal Reserve Bank of New

York to enter into repurchase agreements with nonbank dealers in Government securities, such authorization last having been approved by the Committee at the meeting on April 17, 1956:

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.

On March 1, 1951, and at the annual meeting in March of each year since, the Committee had authorized the Chairman 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, and such action was taken at the meeting on March 6, 1956. No developments were reported since that time indicating a need for change in the existing authorization.

The authority of the Chairman 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 was reaffirmed by unanimous vote.

Unanimous approval was then given to the following resolution to provide for the continued operation of the Federal Open Market 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.

Unanimous approval was also given to a renewal of the following resolution authorizing certain actions by the 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.

Chairman Martin then referred to the following statements of continuing operating policies that had been last renewed by the Committee at its meeting on March 6, 1956.

a. 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).

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.

The Chairman stated that the Special Committee appointed at the meeting on January 28, 1957 as a result of the suggestion made by Mr. Mills at the January 8 meeting held its first meeting on February 18, 1957. That committee had decided, subject to the approval of the full Committee, that, in addition to studying the matter of converting the increment in the System open market account during the year 1956 into longer-term securities, it would start a review of all of the operating procedures that had been presented in the report of the Ad Hoc Subcommittee, as discussed at the meeting on March 4 and 5, 1953, with the exception of the matters relating to the housekeeping aspects of the Subcommittee's report. Chairman Martin said that it was understood that whatever time was necessary would be taken to consider the operating procedures currently in effect. The Federal Open Market Committee included two new members and it would not wish to take an action that appeared to prejudge the current operating procedures, he said. With this understanding and pending completion of the review referred to, the Special Committee recommended unanimously to the full Committee the continuation without change of the operating policies now in effect.

In response to a question from Mr. Bryan, the Chairman said that it would be appropriate and helpful for any member of the Committee or any other Reserve Bank President to express in writing or orally views that he might have with respect to these continuing operating policies or any other matters he might feel should be brought before the Committee.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the three statements set forth above were renewed without change, pending completion and submission of a report by the Special Committee.

Before this meeting there had been distributed to the members of the Committee a report of open market operations covering commitments executed December 10, 1956 through February 27, 1957, and a supplementary report covering commitments executed February 28 through March 4, 1957. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Mr. Rouse stated that the Treasury had asked the Internal Revenue offices to accelerate in every way possible the collection of checks tendered in payment of income taxes in mid-March. Whatever assistance the Reserve Banks could give in expediting the clearing of these checks would not only facilitate the operations of the Internal Revenue service but would also help in carrying out the Committee's objectives.

Upon motion duly made and seconded, and by unanimous vote, the transactions for the System account during the period December 10, 1956, through March 4, 1957, inclusive, were approved, ratified, and confirmed.

Members of the Board's staff entered the room at this point to assist in the 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 presented evidence of a slowing down of expansionary forces in many sectors of the private economy but gave no indication that a pronounced downturn had begun. Rather, there were many underlying forces tending to hold the economy at a high level. Slowing in some lines might make possible expansion in others, while relaxing some of the recent pressures on supplies and prices.

In contrast to the indications of balance in the private economy, the governmental sectors were showing signs of expansion and strain. State and local government expenditures continued to increase, and those of the Federal Government also were rising. The Federal budget surplus would be considerably less this year than last and, in addition, large cash drains on the Treasury were to be expected for nonbudgetary payments such as savings bond redemptions, aid to the mortgage market, drawings by international agencies, and attrition on refundings of marketable securities.

The review noted some easing in credit markets during January, partly because of funds made available by the Treasury. Bank loans had declined, and increased funds had become available for new capital issues. Increased financing strains had developed for the Treasury, and it had had to go to the short-term market for new funds at a time when a reduction in Treasury debt had been expected.

In closing, the review stated that the slackening in demand for private credit, if accompanied by more Government borrowing, might not present an appropriate occasion for relaxation of restraints on credit in general. It was essential that the Treasury borrow as much as possible from savings or that any Treasury borrowing from banks be largely offset by curtailment in bank credit supplied to private borrowers. Serious difficulties would be presented both for the Treasury and for the Federal Reserve as a result of the unexpected change in the Treasury position, which clearly pointed to increased Treasury financing needs during the current year.

Mr. Mills said that he would like to raise a question that would go back to the concept that had been presented to the Open

Market Committee over the years that a high level economy and an active economy must move on a continuous element of growth in the money supply. He had gained the impression that growth in the money supply essentially validated the pressures that had made possible wage increases and increases in prices. This raised the very fundamental question whether it was possible to have an element of economic growth within a constant or static money supply. In other words, having reached a very high level of commercial bank loans and investments, and where there was a factor of revolving of funds and repayments and relending within that scheme of loans and investments, could that turnover substitute within limits to prevent stagnation and, in so substituting, permit the System's monetary policy to exert a degree of restraint that would moderate and prevent the tensions that have presented the constant problem of rising prices and wages. In other words, could there be an effective policy that would hold the money supply constant but allow for growth?

Chairman Martin called upon Mr. Thomas, who stated that this raised the question whether there should be a more rapid growth in the money supply than had taken place or whether there had been too much growth in the money supply. It was a question of the extent to which the economy could be kept in balance simply through limitation on the quantity of money, which is the specific and concrete channel through which System policy operates. Mr. Thomas said that it had been demonstrated by the experience of the past few years that the money supply did not have to increase at a constant rate in order to provide a constant rate of growth in the economy as a whole. It was necessary to look beyond the measure of the volume of credit to the flows of funds, and to look at what was happening in the economy as a whole. Variations in these flows are reflected in changes in turnover of deposits. He also noted that various measures (aid through the Federal National Mortgage Association, redemptions of savings bonds, nonbank holdings of Treasury bills, and the like) had the effect of stimulating money flows independent of variations in the quantity of money, and might thus limit the effectiveness of monetary policy.

Mr. Young said that this presented a question of judgment which the Committee had to make as it went along. Looking back, perhaps System restraint on growth in the money supply should have come sooner than it did and perhaps pressure on turnover should have come somewhat earlier. In the slowing down in the rate of growth in the money supply from about 3 per cent a few years ago to where it now was showing almost no change as compared with last year, a great deal of financial pressure had been exerted on the economy. Such a movement could lead to cumulative pressures that would have the effect of bringing an abrupt change or financial crisis or panicky situation. These price movements must be regarded to some extent psychologically. When business is expanding, prices have to move because they have a function to perform in restraining demand. Some of these price movements may be interpreted as psychological and some downward readjustment could be expected as economic tensions moderated and abated.

Chairman Martin said that the question Mr. Mills had raised was the heart of the Committee's problem. It involved fiscal policy, debt management policy, and monetary policy. The only way in which we could continue to have growth without inflation under current conditions, he felt, was by reducing spending and increasing saving. If spending were not reduced and savings increased to cover the requirements of capital expenditures for new plant and equipment, and if new plant and equipment were not otherwise provided, then we would not get the growth desired in the economy.

Mr. Mills indicated that he thought the problem was one that deserved further study and discussion.

Chairman Martin asked that Mr. Hayes start the reports on the economic situation and suggestions for policy, and Mr. Hayes made a statement substantially as follows:

1. Little remains of the buoyancy generated by last year's sharp rise in business expenditures for plant and equipment. Industrial production is on a plateau, with a slight downward drift in the past two months, and the near prospect is for a continuing sidewise movement at best.

2. With the labor force and productivity tending to increase, there is progressively less reason to feel that aggregate demand for materials and labor is pressing hard against the limit of available resources.

3. On the evidence now at hand, including well sustained consumer sales, the decline in production thus far

seems to reflect a cessation of inventory buying rather than reduced demand from the main sectors of final users.

4. The shift to buyers' markets is showing up in the area of prices, particularly in scrap and raw material prices. Consumer prices are still rising, with the latest rise causing an automatic raise for some 1.4 million workers, thus intensifying the pressure on profit margins which has already been visible in the last year.

5. Total outstanding loans of weekly reporting member banks have changed relatively little in the last four weeks, after the very sharp decline of the preceding four weeks. There is substantial uncertainty as to the extent of tax borrowing to be expected in March. In conversations with New York bankers we have gained the impression that the total would probably be lower than last March, when business loans of all weekly reporting member banks rose by about $1.6 billion. On the other hand, the data in the Treasury's confidential corporate tax survey point to the possibility of larger borrowing, but our present guess would be that this year's total will not exceed last year's level.

6. Turning to the Treasury's activities as they may affect our own, we have been encouraged to observe the dealers' recent progress in disposing of their holdings of certificates and notes offered in the February refunding. However, the additional $200 million of Treasury bills in each week's offering has undoubtedly had an appreciable effect on the bill rate, and the market will be called upon to absorb about $3 billion of new Treasury securities to be offered for cash on March 18 for delivery March 28. The banks, directly or indirectly, will probably have to finance the lion's share of this offering, with consequent needs for perhaps $500 million of additional reserves.

7. As for credit policy, there is no clear evidence whether the present business trend represents a temporary sidewise movement to be followed by further expansion, or whether it marks the beginning of an appreciable economic recession. In any case, since the economy's upward momentum has definitely slackened and since the rise in finished goods prices seems likely to level off in the near future, any overt action toward greater restraint would be inappropriate, although some degree of restraint is still called for.

8. Our policy for the next three weeks should take full account of the pressures which may develop from the prospective tax borrowing, from the large shifts of funds characteristic of the March tax date, and above all from the Treasury's cash financing. Open market operations should, we believe, be directed

toward preventing these influences from adding to the degree of restraint now being maintained. Repurchase agreements may help the dealers to absorb the offerings of government securities by corporations raising funds to meet tax liabilities, but outright purchases will probably be required in view of the magnitude and direction of the expected pressures. While it would seem desirable to maintain moderate negative free reserves over the coming period as a whole, we would not set any fixed target and we would not be disturbed to see positive free reserves appear temporarily in the third week of March as a result of a bulge in float. It may be desirable to commence open market purchases well in advance of the March tax date.

9. The discount rate should certainly not be raised under present circumstances. As for the directive, we believe that the Committee would be justified in retaining a qualifying clause in section (1)(b), but we would suggest that the wording of the clause be changed to read as follows: "while recognizing uncertainties in the business outlook, the financial markets and the international situation."

Mr. Erickson stated that in the Boston District conditions continued to be marked by plusses and minuses. Figures of nonagricultural employment were down from December to January in three states, but in two states the figures showed an increase over January a year ago. Figures of construction showed a decline from January a year ago, when heavy construction had been at a very high level. Commercial building was showing large increases. Business failures were 54 per cent larger in number than in January a year earlier, but new business incorporations were 20 per cent higher in January this year. Department store sales during the 4 weeks ending February 23 showed an increase of 6 per cent over a year ago. In the copper and brass areas, employment was down 11 per cent from a year ago.

After commenting on other indicators of business activity, Mr. Erickson said that he would recommend no change in discount rates at this time. He would hesitate to suggest any figure of net borrowed reserves for use as a guide during the next three weeks. He would give the Management of the System Account an instruction to maintain so far as possible the same degree of restraint as now existed. He felt that Mr. Hayes' suggested change in the wording of the directive would be appropriate.

Mr. Irons said that the picture in the Dallas District was largely one of continuing strength with some weak elements also showing up. Good rains in Texas within the past three to four weeks had been favorable in the agricultural outlook, although these rains had not broken the drought. Mr. Irons noted that despite the drought last year the dollar amount of farm cash income was only 2 per cent below the figure for the year before. This, of course, did not fully indicate the problems in various segments of agriculture. Oil production allowables had been increased and output accordingly had been stepped up. As a whole, the Eleventh District was moving on a high plateau.

With respect to credit policy, Mr. Irons felt that this was not the time to move strongly in either direction. He would attempt to maintain the degree of restraint that we have been effecting, certainly not moving toward ease but not becoming tighter. The discount rate should not be changed now, and Mr. Irons said he would not be unhappy if some of the March tax borrowings and seasonal demands were met by increased discounts at the Reserve Banks. He would prefer this to taking action to make the market easier through open market operations or to putting funds into the market in anticipation of pressures around income tax payment date. However, there should be some pressure if the Committee was going to maintain a degree of restraint. He would prefer the wording Mr. Hayes had suggested for the directive on the grounds that it was a little more related to the picture, but he hoped the Committee would not make too frequent changes in the directive.

In response to a question by Mr. Shepardson, Mr. Irons agreed that part of the explanation for the maintenance of agricultural income in 1956 was that the figures included returns from liquidation of livestock herds in drought areas.

Mr. Mangels stated that final figures confirmed the preliminary data that he presented at the preceding meeting indicating that the Twelfth District economy continued strong in January. Except for a few soft spots such as construction, lumbering, and automobiles, the first quarter of this year would show a generally high level of activity. For the first time in a year, nonresidential construction fell below the previous year during January, and total construction volume was 8 per cent below last year's total. However, reports indicated a large backlog of heavy construction. New automobile registrations were higher in January than in December but 9 per cent below a year ago. Lumber output was down 11 per cent from a year ago. Plywood prices had been increased but some actual sales were still at the old levels.

Bank loans, contrary to the national picture in the past two weeks, declined $13 million at reporting member banks in the Twelfth District compared with an increase of $84 million a year ago. Borrowings at the Federal Reserve Bank had been somewhat heavier in the past few weeks although at $44 million they were still fairly nominal. Twelfth District banks were still net lenders in the Federal funds market.

As to policy, Mr. Mangels said that his thinking conformed closely to that indicated by Mr. Hayes. The Committee should consider the unsettled conditions that would occur during the tax collection period and the Treasury financing operations. He had thought in terms of net borrowed reserves around $200 million but operations should be based on feel of the market. He would not change the discount rate but would agree with the suggestion Mr. Hayes had made for change in wording of clause (b) of the directive.

Mr. Powell reported that the Federal highway program was still very much in a blueprint stage in the Ninth District and there seemed to be no likelihood of its getting to a point where it would increase employment during 1957. In Northern Minnesota, he anticipated a very active year in production of iron ore. Employment in durable manufacturing lines was holding up well. Although agriculture was seasonally inactive, there was concern about spring planting and crop production because of the deficient soil moisture. The open winter had been favorable for livestock producers, but it would be necessary to have substantial spring rains if the district was to harvest anything like normal crops. In the banking picture, Mr. Powell reported a substantial decline in demand deposits since the first of this year which banks had not been able to counteract by selling securities, in some cases banks feeling they should hold Government securities to secure public deposits. There had been a substantial decline in loans during January and the net result was a scarcity of reserves among district banks. Borrowings at the Reserve Bank had been higher, but he hoped they would return more nearly to normal after the income tax period.

As to the Open Market Committee's instructions, Mr. Powell said that he would concur in statements of policy made thus far. He would also concur in the change in wording of the directive suggested by Mr. Hayes. However, he wished to avoid any tightening of the reserve position of banks until after the income tax period and until there had been some clarification of the economic outlook. He would not favor a change in the discount rate at this time.

Mr. Allen said that business activity in the Seventh District was leveling off. Activity in the aggregate was ceasing to rise and inflationary pressures were easing. Although retail sales were running ahead of a year ago and Government spending on goods and services had been rising, there was increasing evidence that the strong upward thrust which characterized 1956 had, for the time being at least, lost a good deal of its momentum.

Mr. Allen said he would not enumerate the evidences of the leveling off in activity, since the picture had been well presented in the economic review and in the comments of others. However, if it were granted that the upward movement in business activity had slowed down or stopped, there was the question whether the time had yet come for a change in monetary policy. Mr. Allen said that he did not believe that time had arrived. Business activity was still quite high and the basic demand situation quite strong. He would continue to mark time and remain alert to indications of more definite trends. In other words, he would not deviate at this time from the present degree of restraint, although he felt we should be adaptable to the short-term financial flows as they developed during March. The latest information from the Chicago District was that March tax borrowing by corporations would be less, perhaps significantly less, than a year ago.

Mr. Leedy said that he was unable to report favorable rains in the Tenth District such as Mr. Irons had reported in the Dallas District. The outlook for the winter wheat crop in his district was extremely poor. The soil bank program was helping to maintain income in the Tenth District, however, and was reflected in a 20 per cent reduction in acreage of winter wheat. Payments under the soil bank for 1957 would average $20.04 per acre, compared with $8 in 1956. Thus, notwithstanding the drought, those participating in the soil bank--and it was general--would fare pretty well. Nonfarm employment was up slightly although not as much as nationally. Retail sales continued to show increases over last year in dollars, although the volume might be lower. Loan liquidation at reporting member banks since the first of this year had been about double that of the comparable period a year ago. Member bank borrowings had averaged 25 per cent lower than last year. The over-all picture was a sidewise movement. Mr. Leedy said there was no opportunity for further tightening of credit restraints at this time, even if that were required which he felt was not the case. He liked the suggestion Mr. Hayes had made for changing the wording of the Committee's directive.

Mr. Leach said that there had been no changes in the economy of the Fifth District during the past two weeks that warranted special comment at this meeting. He had left home with the view that the present evidence as to the national economic outlook was too inconclusive to call for a change in credit policy, and this view had been reaffirmed by the fine presentation of the staff this morning.

In view of the forthcoming Treasury financing, Mr. Leach thought the Committee should take pains to avoid any tightening in the market. This would contemplate net borrowed reserves in the neighborhood of $200 million, but he would not hesitate to depart from that target to whatever extent market conditions warranted. In other words, during a period of Treasury financing primary reliance should be placed on the "feel of the market." Mr. Leach said that a change in the discount rate at this time would be clearly inappropriate. He would favor the change in language of clause (b) of the directive suggested by Mr. Hayes.

Mr. Vardaman said that Mr. Hayes had saved him the laborious task of presenting his own thoughts regarding economic developments and credit policy. He concurred in his suggestion on the discount rate and Committee operations, and he emphasized even more than Mr. Hayes the advisability of anticipating needs of the market by purchasing bills in order to avoid any appearance of tightening around income tax payment period. He agreed with the comment Mr. Irons had made about the wording of the directive, stating that he did not like frequent changes in wording. However, the present wording did not seem to him appropriate and he would go along with Mr. Hayes' suggestion in this respect. He would hope that the Committee would study the directive with the idea of getting wording that could be continued for months and for years without change, letting operations in the System account show whatever changes in policy were necessary.

Mr. Mills said that a successful Treasury financing operation would seem to be as important to System monetary policy as to Treasury fiscal policy and, therefore, he would join strongly with those who would direct open market operations to the general objective of facilitating a successful Treasury financing. He believed that our efforts to that end could be successfully accomplished without conflicting with a policy of general monetary restraint. While we eschew the responsibility or the propriety of underwriting a Treasury operation, we do accept a general responsibility for, within reason, developing a reserve climate that will assist and support the Treasury operation. If the reports are correct, the Treasury will come to the market on March 18, which will fall almost immediately after March 15 tax period. There will be confusion and difficulty in ascertaining what the investment position or the capacity of investors will be and what reserve positions will come out of that turmoil. Therefore, there will be a possibility that the Treasury will have to rely on the initial underwriting support of the banks and the dealers in the same manner as during the last issue of Treasury special bill offerings, with the thought that there will be a later redistribution as others see their way to come into the market.

If that is the situation or if it appears probable that such a situation will arise, it will be incumbent on the System to see that there is a supply of reserves available sufficient in amount to support that initial underwriting. Mr. Mills repeated that he believed this could be accomplished without conflicting with a general policy of monetary restraint because of a general belief and understanding in financial circles that the System would assist the commercial banks to meet the demand for tax loans that is expected to develop during the next two weeks, but not with the intensity that was anticipated earlier. Adoption of Mr. Hayes' proposal for making some advance purchases of Treasury bills would therefore be desirable as an indication and signal that the System was prepared to give reserve support to the demands on the commercial banks for tax loans.

In following this policy of taking care of the demand for tax loans, the Committee would also be creating the kind of reserve climate necessary to support the Treasury's new financing, but in such a way as to give the impression that the reserves provided at tax time would be withdrawn as soon as that need had passed. Mr. Mills felt that by thus using the demand for tax loans as a vehicle for also facilitating the Treasury financing program, the way would be cleared for a readily understandable return to exerting whatever degree of credit restraint was necessary.

Mr. Robertson said that he did not think it was necessary to say anything about the economy as a whole since there seemed to be general agreement that at the present time a sidewise movement was taking place with uncertainty as to which way the economy might go. He said that he would align himself with the views expressed by Messrs. Irons and Allen in favor of maintaining the degree of restraint that has existed heretofore; certainly there should be no easing. Mr. Robertson said that he was fearful that anticipatory purchases of bills in March such as had been suggested by others would lead the Committee into the kind of a situation which had occurred time and again of easing up the market just before a Treasury financing and of then tightening immediately afterwards. Such a procedure should be avoided, if possible. Mr. Robertson emphasized that he felt the Committee must take into consideration the Treasury's position but he was suggesting that we should not make it more difficult either for the Committee or for the Treasury in carrying out its operations and he would, therefore, be inclined to avoid to the extent possible anticipatory purchases of the sort referred to.

With respect to Mr. Irons' comment, Mr. Robertson said that he was in complete agreement with permitting the discount window to carry a larger part of the load in meeting the need for reserves in March. He felt there was no occasion to change the discount rates of the Federal Reserve Banks at this time. As to the Committee's directive, he had no strong feelings regarding either the present wording or that suggested by Mr. Hayes, but felt the distinction of one from the other was quite hazy.

Mr. Shepardson said that he would not attempt to add to the comments made on the general situation, since there seemed to be fairly complete agreement on existing conditions and on the outlook. He was very much concerned about the situation confronting the Committee this month. While he recognized the need for meeting the situation in March that would include the Treasury's financing, he would hope this could be done without undue easing or any semblance of easing in general policy. His thought would be to maintain a stable position prior to the Treasury's financing on which the Treasury could base its decisions. However, he would not give undue encouragement to the market in a way that might later present a problem such as Mr. Robertson had referred to.

Mr. Fulton commented on the steel situation, reporting that a large producer had informed him there was nothing on the horizon of a deflationary nature and nothing to indicate a downturn in the economy. That producer's order book in February was the highest in history. While takings from the automobile and appliance industry had slackened and were not up to original expectations, a substantial amount of steel was still being taken by those industries. The outlook for production was still for a slight decrease during the second quarter, a substantial reduction in the third quarter, and recovery in the fourth quarter of this year. Steel people say that a price rise is inevitable, Mr. Fulton said, adding that their profits are not sufficient to finance needed expansion and that the sale of stock for this purpose would be prohibitive. Steel stocks are selling at a price equivalent to only $60 per ingot ton of capacity in contrast to a replacement cost of $300 per ton.

Mr. Fulton said that he felt some of the hesitation in business generally was a reflection of conditions in lines affected by the automotive industry, and some reflected the fact that inventory accumulations had ceased and were being cut back. Demand did not seem to have lessened.

Mr. Fulton agreed completely with the views expressed by Mr. Robertson on the course to be followed in open market operations during the next three weeks. Were the Committee to relax for the benefit of the Treasury's financing, it would only have to tighten precipitately afterwards, and this would cause the same old criticism that the System had rigged the market for the Treasury and then let prices of Government securities fall. Mr. Fulton felt the Committee would be on much better ground to maintain the present degree of tightness in the market. The discount rate should not be changed, and he would go along with Mr. Hayes' suggested change in the directive.

Mr. Williams said that there had been no unexpected developments in the Third District during the last few weeks. Department store sales for the last four weeks and for the year to date were slightly higher than a year ago, and there had been recent improvement in all reporting centers. Employment had declined somewhat in January, the decline being concentrated in manufacturing activities. Unemployment had risen less than in the corresponding period of last year. Shortages of engineers, tool and die makers, draftsmen, and other highly skilled workers were reported. At some plants, overtime employment of skilled workers had occurred, extending to the second and third shifts. Construction activity in medium-priced and high-priced homes had improved somewhat in January, but housing starts in the low-priced (VA) category were extremely low. Mortgage money remained tight. Business loans had turned up within the past week at larger banks, a good part of the increase being in the metal and metal products lines. There had been little change in total deposits in February, and the larger Philadelphia banks had reduced their holdings of Government securities and increased borrowings from the Federal Reserve Bank. Mr. Williams said that the Philadelphia Reserve Bank had some special problems to deal with in connection with discounting and that it planned to discuss these with the banks concerned after the March tax period but before the summer upturn in borrowings that has occurred in recent years in the Third District.

Mr. Williams said that he was in general agreement with the attitude Mr. Hayes had expressed. The Committee should not move toward greater restraint, but certainly it should not diminish restraint. It should be sensitive to the Treasury's problem, which was a problem not just for this month but for the next five or six months. He did not believe the Committee should have a fixed target of net borrowed reserves. No increase should be made at this time in the discount rate. The directive might need soon to put stronger emphasis on inflationary forces, but Mr. Williams did not feel the evidence was sufficient to warrant such action at this meeting.

Mr. Bryan reported no recent outstanding changes in the economy of the Sixth District, although currently it seemed to be experiencing a loss of funds to other areas. This had happened several times during the last year and a half and he was not certain of its significance.

Mr. Bryan said that he would align himself with the comments made by Messrs. Robertson, Irons, Allen, and Fulton with respect to anticipatory purchases of bills. The Committee could easily get itself into trouble by making such purchases, and he doubted the wisdom of trying to anticipate needs on the basis of feel of the market. The Committee should operate on a very different basis, Mr. Bryan said, that is, on the behavior of the market, a concept on which he would like to elaborate at some future meeting. Mr. Bryan noted that the Committee had just adopted a continuing statement of policy that provided that it would intervene in the market solely for the purpose of effectuating monetary policy. Anticipatory purchases would amount to intervention, and he felt the Committee should adhere to the policy to which he had referred.

Mr. Bryan said that he associated himself with those who wished to maintain the present degree of restraint in the market although he was unable to say what that degree of restraint now was. His thought would be to put the Committee's instruction in terms of behavior of the market, largely of the short-term market, and in terms of the bill market. If the bill market began to move above its present level, he would do some modest buying in order to maintain the present level of restraint. On the other hand, if we moved off several basis points, he would be inclined to stop the easing. He would do nothing about the discount rate at present and he had no particular views about the suggested wording of the directive.

Mr. Johns said that he had nothing of special note to report from the Eighth District. There were some chronic unemployment problems in which no change was occurring.

With respect to policy, Mr. Johns said he would adopt the statement made by Mr. Allen. If there were any change in his position over the past two weeks--and there might be a slight one--Mr. Johns said he would prefer to exercise caution lest things get too tight. At the moment, net borrowed reserves seemed a little on the high side and the projections also were on the high side. In the Eighth District, a feeling of tightness was developing which threatened to be greater than Mr. Johns believed to be desirable. For these reasons, he felt caution should be exercised to avoid pressures on reserves becoming greater during the next two or three weeks.

With respect to the directive, Mr. Johns said that he recognized the arguments in favor of Mr. Hayes' suggestion, but he clung to the position he attempted to state two weeks ago based largely on his reluctance to tinker with the directive until necessary. Generally, he was reluctant to proclaim in the directive that the Committee recognized a specific condition. He would assume that at all times the Committee would claim to recognize all pertinent conditions in the situation. He was not yet convinced that the time had come to recognize uncertain elements in the economy. We might do this before long, but his preference would be to leave the directive unchanged. He certainly would not change the discount rate.

Mr. Szymczak said it appeared to him that there had been no change in the economy that would require a change in the Committee's policy. While there was some slight fractional change in some sectors and the Committee faced a practical situation in March because of the tax period and the Treasury financing, which it had to meet, his overall feeling was not particularly different from that expressed at the preceding meeting. While at that time he thought the Committee should strive relatively for negative free reserves between the $200 to $400 million level, he now felt that a relative range from $200 million down would be temporarily preferable because of the situation to be faced in March. Whether the Committee should buy or sell depended on the situation to be found in the market at any particular time. To the extent the Committee felt that reserves should be made available in March, repurchase agreements would be the best means of providing them. If it became necessary to provide reserves through bill purchases, that should be done as the need arose.

Mr. Balderston said that he saw no significant change from the situation two weeks ago except for the imminent Treasury financing. As to the Treasury problem, he would like to see the Committee adopt a posture that could be maintained through the period of the financing. It should avoid loosening the situation in anticipation of the financing to an extent that would have to be counteracted later.

He still sensed that certain large companies would be reducing inventories rather than increasing them. He sensed that a considerable number of industries were suffering or were about to suffer from excess capacity. He did not believe the time was appropriate for any change in discount rates.

Mr. Balderston said he liked the wording for the directive suggested by Mr. Hayes. On the other hand, he shared the feeling already expressed that the Committee should not change the directive until it was ready to back up the change with action, i.e., the Committee should not modify the wording of the directive unless it actually was ready to shift gears.

Mr. Mills stated that there seemed to be a tendency to confuse discussion of what may or may not be appropriate ways of supporting a Treasury financing operation with recognition of the Treasury's position as a necessitous borrower having first claim to the market. Mentioning that these are two entirely different subjects, he expressed his opinion that as the Committee was always prepared to give appropriate reserve support to legitimate loan demands coming from private sectors of the economy, there were as good or better reasons for its facilitating a Treasury borrowing operation.

Mr. Vardaman said that in view of the several comments regarding anticipatory purchases of securities, he would like to have Mr. Hayes clarify the suggestion he had made on this point.

Mr. Hayes stated that he wanted to make it clear that he was not speaking of "rigging the market." He was speaking of providing the amount of reserves that would support the amount of underwriting that the Committee thought the banks would have to do. To repeat, he felt that policy for the next three weeks should take full account of the pressures that might develop from the prospective tax borrowing, from the prospective shifts of funds characterized by the March tax date, and above all from the Treasury cash financing. Open market operations should be directed toward preventing these influences from adding to the degree of restraint now being maintained. Repurchase agreements might help dealers absorb the offerings of Government securities by corporate holders who were raising funds to meet tax liabilities, but Mr. Hayes felt that outright purchases probably would be required because of the magnitude and direction of the expected pressures. He felt it would be desirable to maintain moderate negative free reserves over the coming period as a whole, but he would not set a fixed target and he would not be disturbed to see positive free reserves appear temporarily in the third week of March as a result of a bulge in float. As he had suggested before, it might be desirable to commence open market purchases well in advance of the March tax date. If there was to be tax borrowing, it would develop fairly soon. Furthermore if there was going to be Treasury borrowing, sizable bill purchases by the Committee would be necessary. Mr. Hayes did not feel there was much danger in providing the market with some reserves to meet such borrowings. Projections of negative free reserves at the moment ran around $550 million during the coming week, which he felt was on the high side considering the various problems faced. It did not seem to him that it would be out of line to do a little buying within the next few days with negative free reserve figures of that sort in prospect.

Mr. Vardaman said that he did not before, and he still did not, see any suggestion in Mr. Hayes' comments of "rigging the market." He wished to reiterate the views he had expressed earlier as to the program to be followed.

Chairman Martin said that he thought this was one of the easiest meetings the Committee had had for some time. The members were closer together on fundamentals than usual. The degree of difference was in just how the account should handle the forces we referred to as "color, tone, and feel of the market"--and now Mr. Bryan had added the word "behavior." The Chairman felt this an excellent word. He was inclined to believe that the language Mr. Hayes had suggested for the directive did not represent much change except in the words.

Mr. Hayes said that he thought there was a substantive difference in the sense that the suggested wording would mention the business outlook, which was not mentioned in the existing wording. He recognized that this was a small point, however.

Chairman Martin said that while this did not impress him very much, he thought the Committee could approve the directive to the New York Bank with the suggested change without doing violence to any of the views that had been stated this morning.

Chairman Martin went on to comment on the Committee's operations in the market. It was very desirable that the Special Committee that had been appointed on January 28 was going to review the operating procedures, he said, because he felt the point Mr. Mills had raised at the January 8 meeting was a good one. The Committee should begin to assess carefully whether it had a market for Government securities that could be responsive to the type of operation the Federal Open Market Committee was endeavoring to engage in. The Chairman said he did not think we had that type of market. Either we would have to create a different type of market than now existed, or we would have to look on open market operations in a different way than we have been looking on them. This was fundamental. Chairman Martin said he did not believe we were making too much progress in the market: it might be that the Committee should accept the market as it is, but he was inclined to think operations should be conducted in a different way.

For the period between now and the next meeting, Chairman Martin said that he thought the Management of the System Account should endeavor to handle operations in the best way it could in the light of the discussion that had gone on at this meeting. It seemed clear that the majority was not in favor of giving undue encouragement to the Treasury financing. There was no intention in Mr. Hayes' suggestion that there be any rigging of the market in any way. On the other hand, the Chairman thought that Mr. Mills had a point in his comments on the Treasury's financing problem that the Committee had to bear in mind constantly. Chairman Martin said that he recognized the difficult problem presented for the Management of the Account in trying to carry out the consensus at this meeting.

Mr. Rouse commented that at times such as the present when there is a substantial amount of Treasury financing to be done, the question arises in the market as to where the necessary reserves are to come from. Mr. Rouse felt that some indication of the source of the reserves and of the fact that the System was prepared to provide them would be essential, adding that smoothness of the Treasury financing operation was fundamental in carrying out monetary and credit policy. In view of the position taken by the Committee this morning, Mr. Rouse said that in the normal course he would be putting some funds into the market along the lines Mr. Szymczak had suggested. These would be put in first through repurchase agreements, if the dealers needed repurchase agreements. Secondly, there would be outright purchases. While there might be some upsetting developments for a few days around March 18, Mr. Rouse did not think the account's actions would be misunderstood and he felt that things would work out along the lines the Committee desired.

As far as the amounts in the directive were concerned, Mr. Rouse said that he would suggest no change at present and he would come to the Committee if a change seemed to be needed.

None of the other members of the Committee indicated views as to policy or operations different from those expressed by Chairman Martin and Mr. Rouse.

Chairman Martin then said that unless there was objection, the directive to the New York Bank would be approved with a change in the wording of clause (b) of paragraph (1) so that it would read "to restraining inflationary developments in the interest of sustainable economic growth while recognizing uncertainties in the business outlook, the financial markets, and the international situation." This would reflect Mr. Hayes' suggested change in wording of the latter part of the clause which previously read "...while recognizing unsettled conditions in the money, credit, and capital markets and in the international situation."

Mr. Vardaman said that over the years he had given a great deal of thought to the Committee's directive and had come to the conclusion that it would be advisable to ask members of the Committee to study the directive with a view to considering whether, at a proper time, all wording referring to inflationary or deflationary actions should be eliminated. It was Mr. Vardaman's thought that it might be desirable to try to get wording of a permanent character which could be continued without change over a period of years. He also felt this could result in shortening the directive.

Chairman Martin said that he fully supported the suggestion that every member of the Committee study the directive. He felt that this should include a study of the history of the wording of the present directive and the way it had been developed over the years, since this background was necessary before any major change. The origin of and reasons for the wording of the directive were rather obscure unless one studied its historical development. He concurred in a suggestion by Mr. Irons that the Special Committee studying operating techniques might look into the directive, but added that it was a matter that all of us should study.

Mr. Shepardson suggested that a fundamental question was involved in the proposal that had been made, that is, whether the directive should indicate only changes in direction of policy. The wording that Mr. Hayes had proposed did not indicate a change in direction but only a change in the specific items the Committee would look at in carrying on its operations. Mr. Shepardson felt that a first need of the directive was to indicate the general direction in which the Committee was going.

Mr. Hayes said that he had taken the pattern of the directive as he had found it when he became a member of the Committee. He had assumed that, from time to time, the Committee would change the wording of certain clauses as the direction or the emphasis of policy changed. His understanding of Mr. Vardaman's suggestion was that the directive be made a more or less permanent document, year in year out, without regard to how the Committee might vary its operations to meet changing conditions. This seemed to Mr. Hayes to be a fundamental suggestion which he was not now prepared to answer.

Chairman Martin repeated a statement he had made in the past, that the Committee should be slow in a meeting as large as this to make changes other than those of a minor sort in the directive. He did not believe there was sufficient difference between the wording

Mr. Hayes had suggested today and that of the previous meeting to warrant any great concern, although he was inclined to go along with Mr. Hayes' suggestion. He also would go along with the suggestion that each member of the Committee review the directive along the lines discussed at this meeting.

Mr. Robertson pointed out that a problem that should be borne in mind in considering the wording of the directive was not only the Committee's interpretation of its meaning, but the interpretation that others would place on the actions of the Committee as those actions were revealed in published reports from time to time.

Mr. Vardaman said that this was one of the reasons why he hesitated to have wording in a directive that indicated the Committee felt that a downturn was taking place in the economy.

Chairman Martin said that he would like to comment on the points mentioned by Messrs. Robertson and Vardaman, and he recalled that earlier this year Senator Fulbright, Chairman of the Senate Banking and Currency Committee, had discussed with him whether the Committee should issue statements from time to time as to its policy directives without waiting for their publication in the annual report. The Committee should be aware of the fact a well-informed member of the Senate who was in a position to reflect the views of other Senators felt that a report of policy actions once a year was not sufficient, Chairman Martin said. If a change were now to be made so that there was nothing in the record of policy actions except a pro forma statement, that might cause members of the Senate to wonder where the present record of policy actions was going. The Chairman emphasized that there was a very real problem in explaining why monetary and credit policy should be determined in the atmosphere of secrecy that has existed.

Mr. Leach said that his recollection and understanding was that we had gotten into the habit of making some changes from time to time in the wording of the Committee's directive for the purpose of showing in the policy record that the Committee had recognized that actual or prospective changes in economic or financial conditions from time to time called for corresponding changes in emphasis even though insufficient to warrant changes in the direction of over-all policy.

Chairman Martin said that it had been very helpful to him upon a number of occasions to have changes in the Committee's views as to operations and policy reflected in shifts in wording in the directive. He repeated that there was a very real problem, in that there was a very strong body of opinion not only in the press but among many others who continued to wonder why in the world the Open Market Committee did not come out periodically with statements regarding its policy. At present, the only time such statements (other than the statements included in the annual reports) were made was when the Chairman of the Committee or some other member of the Committee appeared before a Committee of Congress. Chairman Martin stated that he hoped all members of the Committee would have in mind that this presented a continuing problem.

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 uncertainties in the business outlook, the financial markets, and 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.

It was agreed that the next meeting of the Committee would be held at 10:00 a.m. on Tuesday, March 26, 1957.

Mr. Leedy stated that as a matter of information the Conference of Presidents contemplated having a short meeting on the afternoon of the day on which the next meeting of the Federal Open Market Committee was held, i.e., March 26, 1957, although it was not anticipated that this would result in presenting to the Board a written memorandum of topics for discussion at a joint meeting.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary