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of the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR THE YEAR

1955

tional reserves would have to be supplied to the market later during December to assist in meeting the seasonal increase in currency demand for holiday and other year-end needs.

The situation was considered in the light of the policy adopted by the Committee in March 1953 and last reaffirmed in March 1955, that, during a period of Treasury financing, the Committee would refrain from purchasing (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturity to those being offered for exchange; such policy to be followed until such time as it might be superseded or modified by further action of the Federal Open Market Committee.

Those who voted for making an exception to the foregoing policy and authorizing the purchase on a when-issued basis of securities being offered in the current Treasury financing felt that the Committee could not ignore the position in which it had been placed by a request made by the Secretary of the Treasury for assistance directed toward preventing undue cash redemption of the maturing issue, and by the possibility of psychological deterioration of the whole securities market if the Treasury offering came to be regarded as a failure. They noted that the Treasury had tried to price the new securities correctly in relation to the market situation. They also emphasized that, in making an exception to the general policy that had been followed since March of 1953 against purchasing securities involved in a Treasury financing, the Committee would not be abandoning that policy but rather deviating from it only because of the unforeseen circumstances that had developed in connection with the current Treasury refunding operation.

The members of the Committee who voted against this action were of the opinion that the possibility that an abnormal proportion of the maturing securities would be turned in for cash, rather than exchanged for an equivalent amount of the new issue, was an insufficient reason to deviate from the existing policy. They felt that if heavy cash redemptions developed in the refunding, the difference could be made up subsequently through the conventional means of selling additional Treasury bills or tax anticipation certificates. In their opinion, reserves that would be needed in the market to meet seasonal and other needs should be provided in the usual manner by purchases of other short-term securities, preferably Treasury bills. In short, they did not believe that the circumstances were such at that time as to warrant an exception to the general policy against purchasing Treasury securities involved in a refunding.

December 13, 1955

1. Authority to Effect Transactions in *System Account*.

The Committee renewed its directive to the Federal Reserve Bank of New York in the form in which it had been approved in August and since,

calling for transactions in the System open market account with a view, among other things, "to restraining inflationary developments in the interest of sustainable economic growth."

> Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Balderston, Earhart, Fulton, Irons, Leach, Mills, Robertson, Shepardson, and Szymczak. Votes against *this action: none.*

Economic activity in the countries of the free world generally had been at a high level and rising throughout 1955. Monetary and fiscal authorities everywhere had been faced with the problem of checking actual or potential inflationary developments. In recent months, pressures on labor and other resources had been spreading gradually, but measures of restraint had helped to limit price advances.

The rise in output within the United States recently had been less rapid than in the latter part of 1954 and the first half of 1955, reflecting in part capacity limitations in key industries and in part a leveling off in demand for new automobiles and houses. Because of seasonal influences, the number of unemployed had risen somewhat in November. Business was indicating plans for further expansion in plant and equipment during 1956, and a general feeling of optimism regarding the outlook prevailed.

It was in the light of this sustained high level of economic activity and of the generally favorable outlook that the Committee reviewed the policy of credit and monetary restraint that had been pursued during the fall months of the year. A sharp increase in pressure on the reserve position of banks had taken place during the four weeks ending November 23, but this had been followed by some easing after the System injected a substantial volume of reserve funds into the market during the last week of November and the first week of December, when market conditions were affected by a combination of seasonal reserve pressures, the increase in Reserve Bank discount rates in mid-November, and the Treasury's refunding and cash financing operations. With the passage of that difficult period, it seemed desirable to attempt to regain as far as possible the level of pressure that had existed around November 23, just prior to the announcement of the Treasury's refunding. The Committee recognized, however, that it might not be possible—or even desirable—to reestablish all of the pressure that had existed in November, partly because of the year-end needs that were developing. After considering these factors, it concluded that the general policy of restraint followed in recent months should be reaffirmed with a view to regaining, without causing sudden market disturbances, as much as possible of the level of pressure that had existed shortly before the announcement of the Treasury refunding operation near the end of November.