

A meeting of the Executive Committee of the Federal Open Market Committee was held at the offices of the Board of Governors of the Federal Reserve System in Washington on Monday, May 25, 1956, at 11:50 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. Broderick (as alternate for Mr. Ransom)
Mr. Harrison
Mr. Fleming

Mr. Morrill, Secretary
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Economist
Mr. Williams, Associate Economist
Mr. Burgess, Manager of the System
Open Market Account

ALSO PRESENT: Mr. McKinney, Member of the Federal
Open Market Committee

The Secretary submitted a draft of the minutes of the meeting of the executive committee held in Washington on March 19, 1956.

Upon motion duly made and seconded,
the minutes were approved unanimously.

It was reported that in the interval between the meeting of the executive committee of the Federal Open Market Committee on March 19, 1956, and this meeting the individual members of the executive committee had approved the following:

- (1) A reduction by the Federal Reserve Bank of New York of approximately \$2,000,000 in the account carried with the Bank for International Settlements, by the gradual withdrawal of the proceeds of approximately \$1,600,000 of bills held in the account and \$400,000 in the sight deposit with the Bank for International Settlements.
- (2) A shift by the Federal Reserve Bank of Dallas of \$1,205,000 of 3 3/4% 1946-56 bonds held in the bank's own investment account into a like amount of 2 7/8% 1955-60 Treasury bonds.

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- (3) An increase of \$10,000,000 in the authority granted to the Federal Reserve Bank of New York by the executive committee of the Federal Open Market Committee on March 19, 1936, to make shifts of securities in the System account into other securities having maturities within a range of one year from those of the securities sold.
- (4) Transfers of participations in the System Account, as follows:
 - \$5,000,000 to Dallas from New York
 - \$5,000,000 to Dallas from Chicago

Upon motion duly made and seconded, and by unanimous vote, the actions referred to above were approved, ratified and confirmed.

The Chairman stated that a question had arisen as to the desirability of effecting a more substantial shift from short term to long term securities in the System portfolio than had taken place heretofore, in order to improve the earning position of the Federal reserve banks. There followed a general discussion of the subject during which the view was expressed that the present market situation was not such as to make it desirable to enter the market for long term securities to the extent that would be necessary to effect a substantial shift into bonds and that it would be preferable to defer action with respect to a substantial increase in the holdings of bonds until such action would be better suited to market conditions.

The Chairman then called attention to the question whether the existing formula for the allotment of securities held in the System open market account to the individual Federal reserve banks should be retained, and, if not, what formula should be adopted, which matter had been referred at the last meeting of the Federal Open Market Committee to the executive committee for consideration and report. A memorandum

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on this subject which had been submitted to the Board of Governors by Messrs. Smead (Chief of the Board's Division of Bank Operations) and Goldenweiser under date of May 22, 1936, was read and the various aspects of the matter were discussed. During the course of this discussion it was agreed that Mr. Smead should be invited to attend the meeting. Thereupon he entered the room and participated in a discussion of the principal differences between the existing formula and the formula proposed in the memorandum above referred to.

At the conclusion of the discussion, upon motion duly made and seconded, it was unanimously agreed that the executive committee should recommend to the Federal Open Market Committee that it (a) approve and continue in effect the formula adopted by the Federal Open Market Committee as constituted prior to March 1, 1936, and the practice followed under its authority, with respect to allotments to the various Federal reserve banks of Government securities held in the System open market account; (b) authorize and direct the executive committee to make such adjustments as of June 15, 1936, as may be necessary to bring the allotment to each Federal reserve bank of Government securities held in the System open market account into conformity with such formula; and (c) authorize and direct the executive committee to make thereafter from time to time such readjustments as may be necessary to maintain the distribution of Government securities among the Federal reserve banks in accordance with such formula: provided, however, that if at any time the reserve ratio of any Federal reserve bank should fall below 50% or would be reduced below 50% by reason of the operation of such formula, the executive committee shall make such readjustments in the allotments as shall be necessary to raise the reserve ratio of such bank to 50% by allocating the necessary amount of securities to the other Federal reserve banks in accordance with the formula.

Upon motion duly made and seconded, and by unanimous vote, it was agreed to recommend to the Federal Open Market Committee that it direct all Federal

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reserve banks holding Government securities in their own investment accounts to transfer, on June 15, 1936, to the System open market account at the current market prices all of the United States Government securities held in the investment accounts of the individual Federal reserve banks.

Upon motion duly made and seconded, and by unanimous vote, it was agreed to recommend to the Federal Open Market Committee that authority be granted to each Federal reserve bank to make temporary purchases of Government securities under resale agreements for periods not exceeding fifteen days. The opinion was expressed in this connection that this action of the Federal Open Market Committee, it was believed, would be a satisfactory disposition of the question raised in President Hamilton's letter of March 12, 1936, in regard to temporary purchases of Government securities by the Federal Reserve Bank of Kansas City from the Federal Land Bank of Omaha under resale agreements.

Upon motion duly made and seconded, and by unanimous vote, it was agreed to recommend to the Federal Open Market Committee that it direct that any Federal reserve bank which purchases or holds for its own investment account Government securities pending their sale for the account of member or nonmember banks discontinue such purchases and sell all Government securities so held not later than June 15, 1936. It was understood that the Federal Reserve Bank of Minneapolis was probably the only Federal reserve bank that would be affected by the adoption of this recommendation.

Thereupon the meeting adjourned.

Orestes Morrie
Secretary.

Approved:

W. A. ...
Chairman.