

A meeting of the Federal Open Market Committee was held on Wednesday, November 30, 1955, at 9:30 a.m. This was a telephone conference meeting and the location of each individual is indicated in parentheses after his name in the following list of those in attendance:

PRESENT: Mr. Martin, Chairman (Washington)
Mr. Sproul, Vice Chairman (New York)
Mr. Balderston (Washington)
Mr. Earhart (San Francisco)
Mr. Fulton (Cleveland)
Mr. Irons (Dallas)
Mr. Leach (Richmond)
Mr. Mills (Washington)
Mr. Robertson (Washington)
Mr. Shepardson (Washington)
Mr. Szymczak (Washington)
Mr. Vardaman (Washington)

Mr. Treiber, Alternate Member, Federal Open Market Committee (New York)

Mr. Riefler, Secretary (Washington)
Mr. Thurston, Assistant Secretary (Washington)
Mr. Vest, General Counsel (Washington)
Mr. Thomas, Economist (Washington)
Mr. Ralph A. Young, Associate Economist (Washington)
Mr. Rouse, Manager, System Open Market Account (New York)
Mr. Roosa, Assistant Vice President (New York)
Mr. Carpenter, Secretary, Board of Governors (Washington)
Mr. Sherman, Assistant Secretary, Board of Governors (Washington)
Mr. Koch, Assistant Director, Division of Research and Statistics, Board of Governors (Washington)
Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors (Washington)

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In response to Chairman Martin's request, Mr. Rouse reviewed the market situation. He stated that the \$12 billion Treasury exchange offering of 2-5/8 per cent certificates or 2-7/8 per cent 2-1/2 year notes was extremely well received when it was announced on Friday, November 25. There was a steady offering of "rights," however, and by Monday, November 28, it was clear that a number of large holders of the maturing issues who needed funds for tax payments, dividends, or other year-end purposes would not exchange their holdings into the new securities. Mr. Rouse said that there were also some bank holders of the maturing securities who decided not to exchange into the new issues. Repurchase agreements had been made freely available on Friday and Monday, he said, and, although the money market yesterday was relatively easy, it appeared that a substantial additional amount of reserves would be needed and the System account made outright purchases of bills totaling \$131 million. At the same time, it executed orders for Treasury and foreign accounts for substantial amounts of Treasury securities, including securities of the new offering on a when-issued basis. At the close last night, the amount of securities overhanging the market seemed to be somewhat lighter, but it still looked as though there would be substantial attrition on the Treasury's refunding as far as holders other than the System account were concerned. Mr. Rouse reiterated that there was no disagreement anywhere as far as he could determine as to the attractiveness of the issue in terms of price or maturity of the securities.

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Chairman Martin stated that he would next call upon Mr. Sproul for an expression of his views but that before doing so, he wanted each member of the Committee to know that the Treasury had made a formal request of the Committee for assistance in connection with the current refunding.

Secretary's note: The request to which Chairman Martin referred had been made by Acting Secretary of the Treasury Burgess; during this meeting, a note was delivered to the Chairman stating that Mr. Burgess had called him on the telephone to say that he (Mr. Burgess) had talked with Secretary of the Treasury Humphrey, who "confirmed the request with emphasis."

Mr. Sproul then made a statement substantially as follows:

It looks as though we will need to put into the market during the next week upwards of \$400 million of reserves in order to maintain an even keel. We have here a Treasury issue which was by all counts properly priced on the market and if the Committee should take action it would not be in the position of trying to peg what would seem to be a wrongly-priced issue. The purchase of when-issued securities would put funds into the market on December 8, which is the date of payment for the exchange offering, and which would be getting toward the peak of the need for reserve funds, on the basis of the projections made for the Committee.

It seems to me that this is a situation in which credit policy and debt management can aid one another. If we, as among the possibilities suggested last night by Mr. Rouse, should lengthen the term of repurchase agreements to 35 days to carry them over the year end, which is a period of uncertainty, and if we should have authority to buy when-issued securities which would put reserve funds into the market about when they will be needed on the basis of our projections, we would be helping a faltering Treasury issue which is only faltering because the holders of the maturing issue need cash and buyers are uncertain as to the availability of reserves and the course of the market over the next few weeks. A high

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attrition on the Treasury offering would only mean a larger cash issue when they come to do their cash financing later in December. Nobody in the market would be fooled by the Committee's stepping in and keeping the attrition down, but it would moderate the Treasury's problem on the cash financing in December, which might cause difficulty for them and for us if it was made say a billion larger than has been indicated. If the System, as a result of extending repurchase agreements to 35 days and of buying when-issued securities, should find that the market was getting too easy in December we would have the possibility of letting bills run off over the next three weeks or of selling securities. I cannot say the results will be disastrous if we do not step in and do what I am now suggesting. But I do think it would be helpful and appropriate in the circumstances from the standpoint of credit policy and debt management.

Chairman Martin inquired of Mr. Sproul whether, in order to do what he was suggesting, he agreed that it would require authorization by the full Committee on the basis of a formal vote, on the grounds that such action would be a deviation from a policy that had been agreed upon by the Committee at its meeting in March 1953 and last renewed in March of this year.

Mr. Sproul stated that he agreed that such action would be necessary in order to follow the suggestion which he had made.

Chairman Martin then made a statement substantially as follows:

We have gotten into a difficult situation. We ought to try to sell the Treasury better than we have on the soundness of the policy we have been following since 1953. This whole question should be taken up at a meeting of the Open Market Committee when we would have a thorough review of the policy, because we are going to be charged with going back to 1952 if we follow the suggestion Mr. Sproul has made. If we do make an exception to our general policy, we should make it clear that it is only an exception; otherwise, we should reverse our entire policy. It would be very unwise for the Treasury to think that at any time it gets into trouble on an issue the Federal Reserve will bail it out.

Mr. Mills next made a statement substantially as follows:

Chairman Martin and Mr. Sproul have just stated what to me is the case for not adopting a policy of purchasing when-issued securities or "rights." In other words, if we were to accept that policy we would be abandoning a position that was taken after very mature consideration and without, in my own opinion, being confronted with an issue of a seriousness that would justify such deviation. As Mr. Sproul pointed out, there is a difficult problem but not an emergency. As Chairman Martin pointed out, we have a problem but presumably not a problem that is a serious emergency. There are no indications of what the amount of attrition would be if we stayed aside from purchasing when-issued securities. If there is substantial attrition, as Mr. Sproul pointed out, that attrition can be corrected within a matter of some days when the Treasury comes back for new money and the System can then, in an orthodox and conventional manner, provide the reserve base for the tax anticipation certificates that presumably will be offered. There is a reasonable possibility, it would seem to me, that if the System moved promptly to make direct purchases of bills today in volume, the reserves so supplied would encourage banks and dealers to enter the market both for "rights" and when-issued securities, and in doing so reduce the attrition to limits that would not be a matter of real concern. If there should be a deviation from policy, again in my opinion, it would seem to me that deviation should not go beyond extending dealers' repurchase agreements over a 35-day period. The market, as Mr. Rouse pointed out, yesterday was on a firm basis; the securities offered for the refunding are believed to be attractively priced; the only problem we are faced with is a possibility of heavy attrition.

Mr. Leach inquired whether the Treasury had asked only for assistance, or whether it had specifically requested that the Committee purchase "rights" to the new securities.

Chairman Martin responded that the Treasury had asked that the Committee assist in the refunding operation. He thought that it would like to see the Committee purchase maturing "rights" and he was not sure whether anything else would be of importance at the moment.

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Chairman Martin went on to say that he agreed with everything Mr. Mills had just stated from the standpoint of a general position. However, the Committee's relations with the Treasury are important. Chairman Martin said that he felt quite badly that he had not been more successful in selling the Treasury on the Committee's policy in a manner in which the Treasury would pick up the attrition on this issue as Mr. Mills had suggested. However, this was not the case and the problem was something that the Committee should discuss fully in the near future. It would be unwise, Chairman Martin thought, for the Committee to ignore the position in which it had been placed by the request that had been made on the part of the Treasury for assistance.

Mr. Earhart said that he had been one of those who has not felt that the Committee should be wed inseparably to a policy which in general is a good policy. At some time there might be circumstances develop in which the Committee would wish to make an exception to the general rule it had adopted. Up to date he felt there had been good cooperation from the Treasury since the policy was adopted, but to him cooperation was a two-way street. He would certainly hope that the Committee would not let an exception to its rule become an accepted practice or have the market feel that it had become an accepted practice. However, it seemed to him that if the Committee were to be helpful in the present situation it should be buying those securities that currently are in over supply, such as the "rights" or the

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when-issued securities. It might thus have to furnish a smaller amount of reserves than would be necessary if it tried to help the Treasury indirectly entirely through purchases of bills, and there would be less doubt as to the effectiveness of the assistance. For those reasons, Mr. Earhart said, he would be in favor of making an exception to the Committee's policy under present circumstances.

Mr. Leach stated that he agreed substantially with the views expressed by Mr. Earhart. To him, it was important that the Treasury had tried to price the issue correctly. Now that the Treasury had gotten into difficulty, he would dislike anything which made it appear that the System was "running out" on the Treasury, if there were any way in which it could take care of the situation. Mr. Leach said that he had been somewhat doubtful about the general policy which the Committee had been following but he did not think it would wish to try to change that at this time. The help that the Committee might give should be an exception to the general policy.

Mr. Szymczak said this was an unfortunate position to be in. The market opened in ten minutes. He thought this problem should be discussed at the next meeting of the Open Market Committee but in the meantime there was the practical situation to be considered. His suggestion would be that the Committee make an exception to its policy against purchases of when-issued securities and that it extend the period for repurchase agreements. At the same time, it should tell the Treasury

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that this was a matter that had to be thoroughly discussed within the Committee and by the Committee with the Treasury in terms of what the future relationships might be in situations such as this.

Mr. Robertson said that in his view the policy which the Committee adopted in 1953 was not adopted lightly. He thought it should be adhered to. He could see no basis from the standpoint of either credit policy or debt management for departing from that policy. If it turned out that there was a large amount of attrition on the Treasury's current refunding offering, that could be taken care of by an additional issue of bills by the Treasury. Mr. Robertson said that he did not believe the Committee should be putting reserves into the market at a time when they were unnecessary by deviating from the policy that had been adopted, and he did not believe at the moment that the circumstances were such as to warrant an exception to the general policy against purchasing when-issued securities.

Mr. Vardaman said he agreed in substance with what Mr. Robertson had just said. He would much prefer that the Committee take the direct method of permitting attrition to develop openly in the Treasury's current financing and of having the Treasury issue bills to take care of its needs for new cash. Then the System account could buy bills to the extent necessary. He felt that any purchases of "rights" or when-issued securities would mean that the Committee was engaging in camouflaging the actual market situation. He did not believe such action would be

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effective and could not see what would be accomplished by departing from policy at this time. By permitting attrition to develop, the Committee would know exactly what it was doing and it could then proceed to purchase bills in an orderly way to the extent that seemed necessary.

Mr. Balderston made a statement substantially as follows:

My own view of the situation is similar to that described by the Chairman. I have the feeling that our primary obligation is to put reserves in the market, in the right amount, at the right time. Our secondary obligation is to help the Treasury. Since these two obligations--our primary one and the secondary one--seem to coincide at this time I would depart from our established principle on this occasion only, and would purchase up to \$400 million of 2-5/8 per cent when-issued certificates. It so happens, as Mr. Sproul has stated, that that purchase would fit precisely into our expected need to put reserves into the market on or about December 8. As to Mr. Sproul's other suggestion for extending to 35 days the period for repurchase agreements, I am of the opinion that it might create an undesirable precedent and cause the dealers to lean on us unduly in future financings. The reason I am willing to depart from our principle in the purchase of the 2-5/8 per cent certificates is that I believe thorough discussion of the general problem with the Treasury might avoid a recurrence of a similar crisis in the future. In this case, I would depart from principle and buy the 2-5/8 per cent certificates.

Mr. Irons' statement was substantially as follows:

I am inclined to agree with the position that Mr. Balderston has just stated. I am reluctant to make an exception from the policy on a spur-of-the-moment and somewhat uncertain basis since we do not know just what the attrition will be. That does not mean that I have been completely in accord with the policy as such, but it is policy. I also feel our first responsibility is to place the needed reserves in the market and there is a secondary responsibility to assist the Treasury. This issue seems to have been well priced and it is not the price that is causing difficulty. We do need to put in reserves somewhere in the neighborhood of \$400 million. I would be willing to depart from policy to the extent of buying the 2-5/8 per cent certificates on a when-issued basis within that amount as a step that

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would be in the direction of desirable credit policy and which would also assist the Treasury. I am reluctant to extend to 35 days the period for repurchase agreements. I would be less inclined to do that than to purchase the when-issued securities. The extension of the repurchase period would seem to me to be more of a step toward assisting the dealers. I would think we could let it be known there would be repurchase funds available as needed over the year-end period, rather than to extend the period for repurchase agreements.

Mr. Fulton said that he agreed with Mr. Balderston's view that the Committee has an obligation to the Treasury and that the proposed action would not negate the general monetary policy being pursued by the Committee. Under the circumstances, where the Treasury's issue was priced with the market and with the understanding that the Committee was not committing itself indefinitely to "bail the Treasury out" when its financing did not go just right, Mr. Fulton said that he felt the Committee was justified in taking the proposed step--that is, of buying the when-issued securities under the particular circumstances that have developed at this time.

Mr. Shepardson said he disliked very much to see the Committee depart on short notice, and upon the first signs of difficulty with a Treasury issue, from an established policy. On the other hand, it seemed to him that this was a policy on which there had not been full agreement; it called for further consideration and further "selling" as Chairman Martin had pointed out. It would appear possible that by taking the action suggested by Messrs. Sproul and Balderston the Committee might create a better climate for further discussion of the

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problem and perhaps have a more effective chance for establishing the validity of the principles the Committee has been following in recent years. For that reason, Mr. Shepardson said, he would be inclined to go along with Mr. Balderston's suggestion for purchasing when-issued securities but not for extending the term for repurchase agreements.

Chairman Martin called for further comments on the situation and none of the members of the Committee expressed additional views at this point.

The Chairman then said that there was before the Committee a suggestion that it should make an exception to its policy against purchase of when-issued securities but that the discussion indicated there was no intention to move in the direction of permitting such purchases of securities as a matter of policy. Specifically, the suggestion before the Committee was that it authorize the purchase for the System open market account in the open market, on a when-issued basis, of up to \$400 million of 2-5/8 per cent Treasury certificates to be dated December 1, 1955, maturing December 1, 1956. Chairman Martin stated that he would ask for a vote on the proposal, as he had stated it, unless some member of the Committee wished to amend the proposal.

Mr. Sproul said that the proposal as stated by Chairman Martin applied only to the purchase of when-issued securities and not to the suggested extension of the period for repurchase agreements.

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He went on to say that he felt the purchase of the when-issued securities was more important than the extension of the period for repurchase agreements. With respect to the latter, the idea was to aid the dealers in aiding us. He felt that if this extension were made the Committee might have to purchase less securities than otherwise but, as indicated, the purchase of the when-issued securities up to \$400 million was more important. Mr. Sproul said that he would also like to comment regarding the market in view of the statement that yesterday it seemed to be on a firm basis. It was true, he said, that quotations for the new securities have been just under par, but in reality the market has been in a state of suspended animation in which holders were not able to sell all that they wished to sell.

Chairman Martin stated that if there were no other comments on his statement of the proposal before the Committee, he would ask for a vote on the motion.

Thereupon, the Chair put the motion that the Federal Reserve Bank of New York be authorized to purchase for the System open market account in the open market, on a when-issued basis, up to \$400 million of Treasury 2-5/8 per cent certificates to be dated December 1, 1955, maturing December 1, 1956.

The motion was approved, Messrs. Martin, Sproul, Balderston, Earhart, Fulton, Irons, Leach, Shepardson, and Szymczak voting "yes", and Messrs. Mills, Robertson, and Vardaman voting "no".

Chairman Martin stated that he would now ask for a vote on Mr. Sproul's second suggestion that the existing authority for the Federal

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Reserve Bank of New York to enter into repurchase agreements be amended to extend the maximum period for such agreements from 15 days to 35 days. The Chairman went on to say that while he thought this was a minor element, he would be inclined personally to avoid taking that step at this time.

Mr. Sproul said that in view of the sentiment expressed during the preceding discussion, and the authorization to purchase when-issued securities, he also would now suggest that no change be made in the existing authorization for repurchase agreements.

Chairman Martin said that under these circumstances it appeared clear that the Committee would not wish to change the existing authority for repurchase agreements, and there was no disagreement with this statement.

In response to Chairman Martin's invitation for other comments, Mr. Mills stated that as he understood the action just taken to authorize the purchase of 2-5/8 per cent certificates on a when-issued basis, the operation would not put funds into the market until December 8, the payment date for the new securities. In the meantime, there might be a rapidly tightening market and it would seem that the Committee should reach a judgment at this time as to the quantity of reserves that should be put into the market and just how those reserves should be made available.

Mr. Sproul said that he thought this probably could be handled through repurchase agreements even though the period for such agreements was not to be lengthened, since the account management could indicate to

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the market that repurchase agreements on the usual basis would be readily available from the present time through the year-end period. He concurred in a comment which Chairman Martin made that the existing authority for repurchase agreements, plus the understanding that they would be made available over the year-end period, would be sufficient to handle this immediate situation.

Mr. Mills commented further to the effect that there might be a need for direct purchases of securities within reasonable limits, to be combined with the repurchase agreements. Further, he gathered from the discussion that repurchase agreements might be made not only against bills but also on "rights" on the new securities, and he raised the question whether this would be a further technical deviation from the Committee's general policy.

Mr. Sproul stated that the System account had been engaging in this type of transaction right along and that he did not understand it to be a deviation from policy since the Committee specifically had approved the exclusion of repurchase agreements from the policy of not purchasing, during a period of Treasury financing, (1) maturing issues for which an exchange is being offered, (2) when-issued securities, and (3) comparable maturities for those being offered for exchange. Mr. Sproul continued by stating, in response to Chairman Martin's question, that he would not rule out direct purchases during this period, and he noted that yesterday such purchases totalled \$131 million. He also stated

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that the System account in its operations would take into consideration Mr. Mills' suggestion that outright purchases of securities might be necessary during the period immediately ahead.

Chairman Martin inquired of Mr. Rouse whether any change in the Committee's general directive to the New York Bank was required.

Mr. Rouse responded that, as he understood it, the Committee's action this morning authorized the special and additional purchase of \$400 million of securities beyond the limitation contained in the directive issued at the meeting on November 16. Under these circumstances, he felt no change in the directive issued at the meeting on November 16, 1955, was needed.

Thereupon, the meeting adjourned at 10:11 a.m.


Secretary.