A meeting of the Federal Open Market Committee was held in the offfices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, January 24, 1956, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Balderston
Mr. Earhart
Mr. Fulton
Mr. Irons
Mr. Leach
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Vardaman

Messrs. Erickson, Johns, Powell, and Young, Alternate Members of the Federal Open Market Committee

Messrs. Williams, Bryan, and Leedy, Presidents, Federal Reserve Banks of Philadelphia, Atlanta, and Kansas City, respectively

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Daane, Hostetler, Rice, Roelse, Wheeler, and R. A. Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Carpenter, Secretary, Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Koch, Assistant Director, Division of Research and Statistics, Board of Governors
Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Marsh, Manager, Securities Department, Federal Reserve Bank of New York

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on January 10, 1956, were approved.

Before this meeting there had been distributed to the members of the Committee a report prepared at the Federal Reserve Bank of New York covering open market operations during the period January 10 through January 18, 1956, and at this meeting there was distributed a supplementary report covering commitments executed January 19 through January 23, 1956, inclusive. Copies of both reports have been placed in the files of the Federal Open Market Committee.

In commenting on the supplementary report, Mr. Rouse stated that in the auction for Treasury bills yesterday the average rate was just under 2-1/4 per cent, compared with an average of just under 2-1/2 per cent in the preceding week. Among the influences in the market leading to the decline in the bill rate was the investment of proceeds of funds received from the sale of some $600 million of stock in the Ford Motor Company and the sale of some $400 million of revenue bonds of the Illinois State Toll Highway Commission. Mr. Rouse stated that he would anticipate that by the end of next week the special conditions which had been influencing the bill rate recently might have been completed and the relationship of that rate to the situation in the money market might have become more normal.

Upon motion duly made and seconded, and by unanimous vote, the transactions for the System account during the period January 10 through January 23, 1956, inclusive, were approved, ratified, and confirmed.

Members of the Board's staff entered the room for the purpose of assisting in the presentation of a review of the economic and credit situation, illustrated by chart slides. The script of the review was mailed to the members of the Committee following the meeting, and a copy has been placed in the Committee files.

The review brought out that during 1955 the problems facing monetary and fiscal authority the world over were those of restraining inflationary forces rather than stimulating growth of demand. The current year has begun with activity and employment sharply above a year ago and in many countries close to capacity limits. In the United States, one of the big factors distinguishing the economic position in January 1956 from that in January 1955 is a 98 per cent capacity level for steel operations rather than an 80 per cent level. When operations in a number of important industries have already risen to near-capacity levels, further increases in output can be achieved only slowly. Relatively small increases in demand then may bring heavy upward pressure on prices. A rise of 4 per cent in industrial prices during the year came largely after the spring months, when activity reached very advanced levels. Some observers, noting current reduced levels of farm prices and uncertainties in housing and automobile markets, believe that upward pressures on industrial prices otherwise inherent in the present situation will be eased by reductions in demand in these and other lines. They would expect such easing as a result of credit restraints now in effect or for other reasons. Other observers go further, saying that the economy, after a year and a half of expansion, is nearing a cyclical peak and that a reaction may be in prospect before long. A third possible view is that no important downward adjustments from present levels will occur or that such adjustments as do occur will not be adequate to offset potential increases in spending and investment throughout the world. In that event, inflationary pressures would continue or even become stronger.

While there begin to be evidences of slackening in some of the areas that have shown particularly rapid rates of increase during the past year and a half, evidences of strength in other areas are still too strong to call for relaxation of credit restraints at this time. On the other hand, there is clearly no need for further tightening. The impact of the latest increase in discount rates upon the credit situation has so far been largely cushioned by the many special factors operating in the money market since the end of November. Present projections, which allow for moderate credit growth, indicate that net borrowed reserves may be substantially above $400 million in February and March unless prevented by System purchases of securities. The restrictive effect of a continuation of about $400 million of net borrowed reserves and a Treasury bill rate of around 2-1/2 per cent upon the allocation of existing credit resources might prove to be excessive, although current market behavior indicates otherwise. The situation is one that calls for careful watching and sensitive adjustment to the prevailing attitude of expectations as indicated by behavior of all markets.

At Chairman Martin's request, Mr. Sproul then made a statement on the economic situation and credit policy substantially as follows:

1. To paraphrase remarks recently attributed to the Secretary of State, the art of central banking is to approach the brink of inflation without falling in or being pushed in.

2. It is our job to try to see to it that, so far as the money supply and the availability of credit are concerned, the economy is in a position to work, to produce, and to consume, at near capacity levels.

3. Unfortunately, the brink of inflation is not always clearly discernible, because the boundaries of near capacity, full capacity, and over capacity are indistinct, and possible at near capacity, probably at full capacity and certainly at over capacity, too much money and too easy credit will lead to increases in prices, but not to increased real income.

4. We are in a position now in which the economy in the aggregate and with allowance for seasonal variations, seems to be working near capacity, but could move over the brink or back from the brink. Some of the strongest stimulants of the past year - e.g., automobile production, residential building, and foreign demand - may stay relatively high but are unlikely to be pushing upward. Other stimulants - e.g., private capital expenditures, state and local expenditures, and wage increases - seem likely to continue the upward push and some increase in inventory accumulation might be a contributing factor. The major continuing soft spot is the agricultural situation. The resultant of all such forces, in terms of consumer expenditures, which are the biggest factor in the whole economic complex, is not precisely determinable. Aggregate incomes are likely to be higher during coming months, which would suggest some increase in consumer spending, but incomes may not be so readily inflated with large doses of consumer credit on progressively easier terms, or of mortgage credit, and savings may be larger.

5. At the moment we might be said to be feeling our way along at about the right place with reference to the brink, with some seasonal contraction in credit taking place. This suggests a steady hand on the monetary controls, which neither tightens nor relaxes its grip. This would mean no change in discount rates, and it would mean open market operations guided by bank borrowing, net borrowed reserves, interest rates, the general tone and feel of the market and market expectations and anticipations, which would seek to maintain, for the present, about the degree of pressure which we have now reached. On the basis of present projections this could mean putting some funds into the market during the next two weeks, but that should be determined from day to day, in the light of all the available facts and indications of tendencies or trends.

Mr. Johns stated that two weeks ago he had said with some timidity that he would not be disappointed if the Committee failed to regain quite the same degree of restraint that existed last November. He was not aware of any reasons which would lead him to change that opinion at this time. He wished to make it clear that he was not talking about a change in direction of policy and was not indicating that there should be much change in the degree of restraint under present policy. He would not change the discount rate at this time.

Mr. Bryan said that activity in the Atlanta District continued at an extremely high level. There were soft spots as in agriculture, but they were not as serious as might have been expected. Employment and productivity were still expanding, although the lead of the Atlanta District against national activity had declined somewhat. On the national picture, Mr. Bryan recalled that two weeks ago he expressed the view that perhaps "the bloom was off the boom." However, he now found very little evidence of any general let-down or slackening of consequence, although there might be some reduction from the extremes of optimism that prevailed last summer and fall. As to policy, Mr. Bryan said that his view would differ a little from that expressed by Mr. Johns in the sense that, while he would not want to see any such dramatic action as an increase in the discount rate at the moment or a change in reserve requirements, the System should be very careful not to permit an impression of "ease" to be created by permitting the short-term rate to back away from the discount rate. He would maintain the short-term rate structure in close proximity to the discount rate. We have gotten over the shock, if any, of the latest increase in the discount rate and at present the effective cutting edge of monetary policy does not lie in the field of psychology but in the field of rates. Accordingly, Mr. Bryan said that he would advocate a policy for the next few weeks of making certain that the Committee kept the discount rate effective by open market operations designed not to permit the bill rate to go much under, and not much above, the discount rate.

Mr. Williams said that there had been no substantial changes in the economic situation in the Philadelphia District since the meeting two weeks ago. He commented on various degrees of optimism in different parts of the district and on the expectation that the Philadelphia Reserve Bank soon would approach some member banks on their use of the discount window. Mr. Williams said that he felt the Committee should not allow a feeling of ease to develop, but neither should it move in the other direction at the present time.

Mr. Fulton described conditions in the Cleveland District as still being in a period of boom. No one anticipated any great down turn although there was talk of caution. Under these conditions, he suggested no decrease in the discount rate nor should there be a decrease in the amount of net borrowed reserves. Mr. Fulton said that he felt it desirable to move back toward the level of restraint that existed last November. If any relaxation became noticeable, that could be interpreted as an indication that the Federal Reserve System saw a down turn in activity, and such a reaction could have a profound effect in the thinking of businessmen, the stock market, and other aspects of the economy. Mr. Fulton said that he did not feel relaxation was in order at this time.

Mr. Shepardson said the economic situation impressed him as being fairly well balanced with some downward indications being offset by upward factors. Along with that, the psychological factors and the political aspects of this period made it more important than ever that the Committee hold a line that would not give way to inflationary pressures. He would prefer to see net borrowed reserves maintained at a level that would bring the short-term rate back closer to the discount rate, and he would certainly not favor an easing in the situation.

Mr. Robertson said that the views thus far expressed fairly well coincided with his thinking. A short time ago, when we had a very easy reserve situation, the levels of interest rates and yields were firm, but as reserve positions have tightened more recently the interest rate level has declined. This decline might be construed as a move toward ease on the part of the Federal Open Market Committee. Mr. Robertson said that he felt that in the immediate future the Committee should attempt to offset some of the special factors in the market, such as the vast nonbank funds which had been having an influence on rates, in order to avoid if possible unfortunate construction. He would not go too far in that direction but would make it very clear that the Committee's policy is still one of firm restraint. He would not change the discount rate at this time and would not in any other way indicate any relaxation.

Mr. Mills said that his reasoning followed the channel that had been opened up in the discussion thus far. The Committee should maintain a firm hand on reserve positions of banks and on the money market in order to prevent any hint of relaxation. Mr. Mills recalled that at the meeting two weeks ago the Chairman brought out the fact that the System's operations were under a much closer scrutiny from the investment and business fraternity than usual, and that there was a temptation on the part of analysts to read into any actions of the Committee possibly more than the Committee intended. This was a warning, for if the Committee were now to relax it might be charged with being moved by political influences, or it might have its actions read as confirming some of the doubts about the economic future that are being expressed from time to time. How the Committee can maintain the necessary degree of firmness may be a problem. Net borrowed reserves running from $200 to $400 millions might be an appropriate target on which to tie policy.

The Federal funds rate, which is running at 2-1/2 per cent, suggests a greater degree of pressure and firmness in the market than has been indicated from the recent movement in Treasury bill rates. That being the case, care must be exercised not to be misled by the extraneous influences that have brought Treasury bill rates out of line. Mr. Mills said that he would disagree with Mr. Robertson that the Committee should move in the direction of offsetting the reduction in Treasury bill rates. The market seems to be analyzing and interpreting the figures in accordance with their significance, and the Committee should rely on market analysts to reach the conclusion that the direction of System policy is firmness at the present time. It should be made clear that the Committee's actions can be taken as a guide to its policy, so that when the Treasury comes to the market some weeks hence it can make its announcement against a background of a clearly defined System policy. It would be extremely difficult to indicate what System policy should be toward withdrawing or supplying reserves over the next few weeks, Mr. Mills said, and the Manager of the Account presumably would have to be in a position to use his judgment to meet promptly any situation that might develop either toward undue ease or tightness in reserve positions.

Mr. Vardaman concurred in the views expressed by Mr. Sproul as to the present economic situation, and he said that he approved of Mr. Mills' injection of the political angle into the discussion of what the Committee's operations should be this year. He would regret any evidence of a loosening or weakening of the Committee's position of firmness. On the other hand, he felt it imperative that the Committee "stand by the wheel" with a sharp eye to whatever might develop in the next 60 days, adding that, at the slightest indication of a psychological fear being built up on the part of the public regarding the future, the Committee should not hesitate to take whatever action might be called for at that time. It should be prepared to loosen the reins if it appeared from developments that such a move was necessary.

Mr. Leach said that the economy of the Fifth District continued strong. Consumption of cigarettes increased 3 per cent in 1955 over 1954 and man hours in the industry are nearly at the highest level since 1953. First quarter production in textiles has been completely sold out. Commitments are fairly high in the second quarter. Furniture manufacturers are very optimistic and expect to continue production at high levels. For the country as a whole, Mr. Leach could see little change in the economic factors since the meeting two weeks ago other than that the cutback in automobile production, which all of us had expected, has actually begun. Over-all indicators still seem to point to a strong economy in 1956. On the other hand, Mr. Leach said that he sensed a change in the attitudes of some businessmen. Less optimism is expressed than was the case last November. This tendency to be somewhat cautious seems to characterize January. In January last year, he noted there were general doubts as to the ability of the economy to sustain recovery. The question now is whether the uncertainty concerning the outlook is temporary or whether it will actually carry over into the real economic processes in terms of business and consumer spending. Mr. Leach emphasized that doubts about the outlook still generally apply to the third quarter of the year. Since the Committee's primary concern is with the immediate developments, he thought it would be a mistake to move toward a policy of ease because of the psychological developments. In fact, a move in this direction by the Committee would probably accentuate reactions. On the other hand, he saw no justification for intensifying the present policy of restraint. In brief, he would not relax restraint and would not want it to appear that the Committee was relaxing at this time.

Mr. C. S. Young reviewed conditions in the Chicago District, stating that the optimistic statements of a month ago were still being repeated by business leaders in the area. They indicated a little worry following their earlier optimistic statements and some, as in the automobile industry, had toned down their comments but they still felt quite optimistic. Mr. Young felt the Committee should not relax now. As a day to day proposition it should not move very far either in the direction of relaxation or greater restraint. A move toward relaxation would give notice to the investment community that business is not as good as we have been thinking. Mr. Young also said that he would not increase the discount rate at this time.

Mr. Leedy said there seemed to have been no change yet in the general economic picture that would justify a change in the Committee's program from that approved two weeks ago. It should continue the effort to apply about the degree of pressure it had been aiming at on bank reserves. He felt the management of the account had done a very good job under difficult circumstances. Mr. Leedy assumed that with the passage of the special conditions which had resulted in a reduction in the Treasury bill rate, there would be a reflection of the Committee's general policy in a movement of the bill rate closer to the discount rate. He would feel the Committee should continue doing about what it has been doing recently.

Mr. Powell said that agriculture in the Ninth District was doing quite well this winter. On a recent visit to Montana he found cattlemen reasonably satisfied with conditions, and it looked as though the water supply for the western part of the Ninth District would be adequate this spring, which would practically assure fairly good crops during the coming year. Retail trade had been rather unsatisfactory in December and figures which had become available since the meeting two weeks ago confirmed the belief which he then expressed that there had been considerable accumulation of stocks. Turning to the national picture, Mr. Powell thought that the building boom may have passed its peak and he felt quite sure that the automobile industry has passed its peak for some time to come. There might be a conjunction of a number of weak spots in the economy this year that would cause considerable difficulty. For the moment, however, he did not see a need for anticipating a down turn in business and he would favor a continuation of about the present level of restraint.

Mr. Earhart said there had been some moderation in the very high degree of optimism that had developed last fall, but there was nothing tangible enough to cause a change in Committee policy from that agreed upon two weeks ago. He hoped open market operations could be conducted so that the public would feel the Committee had made no change in its policy for the present. He would suggest no change in the discount rate at this time.

Mr. Irons favored continuation of the general policy agreed upon two weeks ago, which he felt had been very effective in keeping pressure on the market but avoiding any tendency toward ease or further restriction.

Mr. Erickson said that in the First District the plusses were wider than the minuses. Experience in automobile sales recently has not been good, registrations of new cars in Massachusetts the last two weeks of December having been 40 per cent and 80 per cent below those of a year ago even though weather conditions this winter have not been bad. On the other hand, construction contracts are well ahead of a year ago. Mr. Erickson agreed with most of the comments on Committee policy and would keep the same degree of restraint for the present with no change in discount rate. He noted that one of the factors which caused difficulty in making Committee policy effective was the variation in float, and he suggested that additional study of this factor might be desirable.

Mr. Szymczak said that there seemed to be agreement that there had been no sufficient change in the situation to call for a change in open market policy at this time. The Committee should continue the degree of restraint it has been following, he said, but should watch the economic indicators carefully, particularly developments in the automobile and construction industries, so as to be in position to act in whatever direction might be called for.

Mr. Balderston then made a statement substantially as follows:

> Despite the difficulties of communicating with precision ideas relating to policy, I will attempt to indicate my beliefs

as to what the policy objective should be and why. My present position is slightly different from that of two weeks ago when I felt that the bill rate target should be the discount rate, plus or minus. Now I would prefer as a target the discount rate minus.

This suggests a modification of the objectives of our policy from that of restraining inflation, to that which Mr. Sproul discussed with great clarity. I would now prefer an objective that stressed the maintenance of stable equilibrium just beneath capacity. I do not mean we should actually shift our policy at present to any obvious relaxation of the rigors of restraint. I do mean, however, that our future problem is likely to be one of perpetuating a high level of production and employment just beneath capacity--just far enough beneath it to minimize upward price pressure. This shift of policy objective might well be reflected in today's directive to the New York Bank.

My reason for urging this shift of objective is that the momentum which the economy carried over into the new year seems to be lessening. Or if not, the rate of acceleration seems to be decelerating. Despite the continued strength of metal prices here and abroad; despite a strong continued demand for commercial and industrial loans; and despite a tendency to accumulate inventories, one notes a tendency toward "topping off" in the reduction of housing starts and the increased difficulty of selling automobiles and consumer durables. One also notes other factors that may have a bearing on our problems some months hence. Prices of shares in the London market have been softening for some months. In the New York market, we also have a softening of stock prices recently. In the capital market, the schedule of offerings is small. I am concerned that the high rate of expansion that we anticipate this year in corporate construction may be followed by a dearth of such expansion and growth, which we will need if capacity is to keep pace with future population.

Therefore, I favor an inconspicuous shift of policy objective designed to maintain the current high level of employment and production without so pressing on capacity as to push industrial prices higher. I would like to see a shift kept carefully within this Committee. This last observation seems to me especially important at the moment because the Committee should be free to take whatever action seems to be needed to counteract the gyrations in business psychology that will follow the President's announcement, whatever it may be. The economy may suffer very turbulent times in the weeks and months following the President's announcement of whether he will or will not be a candidate. We may have ebullience and speculative fever or we may have a psychological let down. I would, therefore, like to see us keep prepared to act decisively in either direction and at the right time.

Chairman Martin next made a statement substantially as follows:

From my point of view, this is not quite as easy as the last few meetings. For some time, I have been able to say that I agreed with the consensus, and there was no problem of agreeing on what our policy would be. I do not mean that I disagree very much now, but I would like to make some general observations on what my thinking is.

First, the Committee should be extremely careful in determining policy not to let it be weighted by apprehensions as to what the political implications of our decisions may be, and not to get into a frame of mind in which we say that we should not move one way or the other because it might be interpreted by the public in terms of politics. We should be objective about economic developments and about determining our policy for the good of the economy.

Also, I have the strong feeling that none of us can gauge the economy very accurately. When we deal in fine degrees, we are falling into the error that Mr. Sproul has pointed out many times of giving a little credence to the idea that monetary policy can do more than it can, and that we can turn on the faucet or turn off the faucet and can achieve a precise objective.

I don't think you can rely too much on analogies but sometimes I think they illustrate an idea. My sixth sense has made me believe that in recent weeks the machine has been going forward, but it has reached a plateau and it is wobbling and the road before us has some rough spots. If we can use the analogy of using the brakes on a machine, it may help to illustrate what I have in mind. When you are driving a machine and when you reach a plateau and you are wobbling a little bit, the degree of pressure that you put on the brakes has quite a little influence on whether the wobbling continues or not. I don't for one moment intend to imply that I favor relaxation of credit restraint at this time, nor do I quarrel too actively with the majority sentiment of the group. I merely call attention to what I personally think we should be watching for.

If I were doing it over again, I would say that perhaps we followed a policy of active ease a little too long and we let ourselves get into a position of a strait jacket, of letting the "even keel" become the status quo, rather than of having the flexibility we desire in monetary policy. I do not think Mr. Sproul intended that in his use of "even keel." In the period we face there are many psychological factors, and we will have to operate on the basis of what we feel and of the projections that will be before us, without really knowing what loan demand will be.

To take part of the statement that Mr. Johns made, I would favor two weeks later than he did (he suggested it at our meeting two weeks ago) that, within the imprecise projections we have to work with, I would be trending in the direction of zero free reserves--not in a target sense, because of the imprecise tools we have to work with, but I would be trending in that direction. If this turns out to be a plateau and not a valley, we will still be in a strong position to raise the discount rate or to take whatever action we believe is needed.

I want to reiterate that flexible monetary and credit policy require that we not get into the position where people can say, "The Federal Reserve just held blindly to one particular course and then all of a sudden turned around." We did not do that in 1953 when we altered our course, and we do not know whether we want to do that today. I may tend to minimize the forces that are at work in the economy, all of us may tend to minimize them, but nevertheless they can be quite real and the effects can come quickly when they do come.

We as a Committee ought to be in the position of putting our foot on the brake pedal but not pressing on the brakes. I think that is what all of us have had in mind in one way or another in what we have said this morning. It is a matter of emphasis. This is one of those extremely difficult periods where I personally would be in favor of an "even keel" if we could get an even keel, but I do not believe that we can get an even keel under current conditions. I do not believe that Mr. Rouse, if he were the ablest manager in the world--and I am not implying he is not the ablest manager in the world--I don't believe that the forces we are dealing with here make it possible to say that $300 or $400 million of negative free reserves is precisely what is needed, or that the tone of the money market calls for any precise amount of reserves. We may say that we should maintain the pressure we now have in the market but I do not believe we or the public knows what the degree of pressure is that we are maintaining.

The point I am driving at is that I feel we ought to consider looking at the directive we now have had for almost six months, and perhaps we should make a modest adjustment in that directive to permit more flexibility, if we wish. In this general picture, I would be inclined to have the management of the Account trend in the direction of not pressing on the brakes but of not releasing the brakes.

I want to reiterate my comment on the political side of this. We are going to have that to deal with all this spring. I know that I find myself inclined to say that we ought to make it plain that we are not being influenced by political considerations and that we are following a course which is clearly not a political course. But that is just digging the System's grave so far as effective monetary policy is concerned. I am not talking about a political grave, I am talking about our objectives and fulfilling the functions the System is supposed to have in view in a flexible monetary and credit policy.

I have talked this over with Mr. Riefler and, in connection with the wording of the directive, he has suggested some language which would change clause (b) so as to make it plain that we are following flexible monetary policy. It seems to me that a little difference in emphasis is called for at this time. We should remember that this policy directive is a public record and if we feel that a little shift in emphasis is called for, it is desirable that we show that in the public record.

There followed a discussion of Chairman Martin's suggestion for a change in the wording of clause (b) of the directive to be issued to the Federal Reserve Bank of New York. In the course of this discussion, Mr. Johns said that when he spoke earlier in the meeting he did not refer to the language of the directive, assuming that there would be an opportunity to discuss that question when the directive was presented for approval. However, at a meeting with some of the staff of the St. Louis Bank yesterday, there had been considerable discussion of the wording of the directive at which time he had taken the position that the time had come for the Committee to eliminate sole emphasis on "restraint" in the wording of the directive and to substitute something more like the language of the directive issued at the meeting last June. He personally was strongly in favor of some such change, and wording along the lines suggested by Chairman Martin and implied in Mr. Balderston's comments would seem suitable.

Mr. Sproul said that he, like Mr. Johns, had assumed that a discussion of the directive would come up later in this meeting although he felt it logically fitted in with this discussion of policy. He thought there was a danger when the Committee met every three weeks that changes in the economic situation between meetings might be almost imperceptible and that therefore it might seem that no change was called for in the wording of the directive. However, he sensed that the Committee does not feel that no change has occurred in the situation in recent weeks. There has been a change in the economic situation, Mr. Sproul said: certainly the rate of growth has decreased and there are ruts in the road which were not there before. He did not feel that the Committee could apply a policy with sole regard to restraining inflationary forces any longer. It had to take account of the possibility of a move in the other direction, and in Mr. Sproul's opinion, the Committee should consider whether the time had come for a change in the directive. The policy actions of the Committee are a public record, Mr. Sproul said; the Committee is constantly being charged with having a deflationary bias, and it was his view that since the Committee felt that a time had arrived for a change in policy or policy emphasis, that change should be reflected in the directive which would be part of the published record in order that the public might know the Committee's views had changed.

At Mr. Balderston's suggestion, Mr. Sproul repeated some of the comments he had made earlier in the meeting. He felt that the concept of making credit available to permit the economy to work, to produce, and to consume at near capacity levels suggested a change in the directive at this time. While determination of the exact wording was difficult, he said that one of the points to be considered was that the wording should be not only a reflection of what the Committee's thinking and judgment was; it also should be in language to enable the public to understand what the Committee had in mind when it changed the directive.

Mr. Mills raised the question whether it would be preferable to make a change in the directive at this time or to defer doing so until the next meeting, by which time the Committee might be firmly convinced that the time had approached when a change should be made. He was fearful that a change at this time, particularly with language which he found difficult to understand, would be regarded in the future as an escape clause rather than as a decision based on a firm conclusion as to what direction policy should take.

Mr. Bryan expressed somewhat the same view as that just indicated by Mr. Mills, adding, however, that he had no strong conviction that the directive should not be changed at this time.

During the discussion, Mr. Robertson said that he was not as sure as the others had indicated that the Committee should not be watching inflationary aspects. He would be very much surprised, he said, if they were not still present during the next three months. At the same time, he did not deny the possibility of some deflationary movement and he would have no objection to changing the directive along the lines suggested by several of the members of the Committee.

After further discussion and consideration of several suggestions of possible wording for a modification of clause (b) of the first paragraph of the directive to be issued to the Federal Reserve Bank of New York, the Committee agreed unanimously that clause (b) should be changed by adding after the word "growth" the phrase "while taking into account any deflationary tendencies in the economy" so that this clause would read "(b) to restraining inflationary developments in the interest of sustainable economic growth, while taking into account any deflationary tendencies in the economy,"

In response to Chairman Martin's question, Mr. Rouse stated that he had no suggestion for change in the limitation contained in the existing directive:

> 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 taking into account any deflationary tendencies in the economy, and (c) to the practical administration of the account; provided that the aggregate amount of securities held in the System account (including commitments for the purchase or sale of securities for the account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than $1 billion;

(2) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate $500 million;

(3) To sell direct to the Treasury from the System account for gold certificates such amounts of Treasury securities maturing within one year as may be necessary from time to time for the accommodation of the Treasury; provided that the total amount of such securities so sold shall not exceed in the aggregate $500 million face amount, and such sales shall be made as nearly as may be practicable at the prices currently quoted in the open market.

Chairman Martin inquired whether there were any suggestions for change in the repurchase authority, and no such suggestions for change were indicated.

Thereupon, the following authorization was approved by unanimous vote:

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.

Chairman Martin stated that he had contemplated having a discussion at this meeting of the Committee's policy that during a period of Treasury financing it would not authorize the purchase of "when-issued" securities, and whether the deviation from that policy authorized in connection with the Treasury financing at the meeting November 30, 1955, was simply an exception to it. He stated that he thought it important that the Committee have a discussion of this question and reach an understanding prior to the next Treasury financing as to whether this continued to be the Committee's policy. However, in view of the lateness of the hour he raised the question whether it would be preferable to carry over discussion of this subject until the next meeting of the Committee. It was understood that discussion of this topic would be deferred until the next meeting.

Chairman Martin referred to his appearance before the Senate Committee on Banking and Currency on Friday, January 20, 1956, in connection with his renomination as a member of the Board of Governors, stating that at that time Senator Douglas requested the vote on an action of the Federal Open Market Committee last December authorizing the purchase of when-issued securities in connection with the Treasury financing. He went on to say that he had told Senator Douglas how he voted and that he had also revealed that the Committee's action on this matter was decided by a split vote 9 to 3, but that he felt he should not reveal how the individual members voted without clearing with the Committee, even though a statement of the action and the individual votes would be made public later in the Annual Report of the Board of Governors covering the year 1955. Chairman Martin inquired whether any of the individual members of the Committee or the Committee as a whole would object to his furnishing the Chairman of the Senate Committee on Banking and Currency with the information which Senator Douglas had requested prior to the date this information was made public in the Board's Annual Report.

> Upon motion by Mr. Earhart, duly seconded, Chairman Martin was authorized by unanimous vote to furnish the Chairman of the Senate Banking and Currency Committee with the names of the individual members of the Committee voting for and against the action in question.
>
> Secretary's note: Pursuant to the foregoing authorization, Chairman Martin sent a letter to the Honorable J. William Fulbright, Chairman, Committee on Banking and Currency, United States Senate, under date of January 24, 1956, reading as follows:

"In the course of the questioning when I was before your Committee last Friday, Senator Douglas requested the vote on an action of the Federal Open Market Committee last December and I stated that the vote was 9 to 3. Senator Douglas asked me to state who voted in the negative and I demurred that I thought it would be preferable to await the annual report since it would be out in a couple of months and would contain a full discussion of the matter.

"I had in mind the fact that Congress, as you know, has established that procedure as the regular method for reporting "to the Congress the actions and policies of the Federal Open Market Committee with the votes and reasons therefor. However, I said I was perfectly willing to say that I voted for the action but that I hesitated to give the names of my absent associates before I had had an opportunity to consult with them. I have now done so and since no objections have been raised, I wish to report that those voting against the action were Governors Mills, Robertson, and Vardaman. Those voting for the action were, besides myself, Messrs. Sproul, Balderston, Earhart, Fulton, Irons, Leach, Shepardson, and Szymczak.

"I trust that this is the information Senator Douglas wishes to have."

At Chairman Martin's request, Mr. Thurston commented upon inquiries being made regarding the dates of meetings of the Federal Open Market Committee, which subject had been discussed briefly at the meeting on January 10. Mr. Thurston said that he felt no special significance should be attached to a meeting date and that it would be preferable to respond to inquiries on this question by stating that Committee meetings were held regularly and frequently. He added, in response to an inquiry from Mr. Robertson, that he would not hesitate to state that the next meeting of the Committee was tentatively scheduled for or would be held on a specified date unless the Chairman of the Committee or some members of the Committee decided to depart from that day.

It was understood that the procedure suggested by Mr. Thurston would be followed in the event of inquiries regarding the dates of meetings of the Committee.

Chairman Martin then brought up the problem of press reports which presumed to give information regarding discussions and actions taken at meetings of the Federal Open Market Committee. He asked that

Mr. Thurston also comment on this problem.

Mr. Thurston referred to the report in the January 14, 1956 issue of Business Week which purported to give the substance of discussion at the meeting of the Committee held on January 10. He stated that he understood that a reporter for Business Week had been making calls to the Presidents of the various Federal Reserve Banks a day or so before meetings of the Committee and, while he was not suggesting the Presidents should not talk with reporters under such circumstances, it occurred to him that some might unintentionally provide information which the reporters would use in preparing stories purporting to tell what went on at the meeting.

Mr. Williams stated that a representative of Business Week Magazine had called him before the meeting of the Open Market Committee held on January 10 and that he had talked with him regarding the business situation. However, Mr. Williams felt that the reporter should not have inferred in his story that what Mr. Williams talked with him about prior to the meeting was a portion of the discussion at the meeting. Mr. Williams expressed doubt as to whether it was desirable to talk with reporters in such circumstances.

Chairman Martin stated that he thought there could not be a single rule which would apply to inquiries from the press but that he thought this was a problem which all of those attending Open Market Committee meetings should bear in mind.

At Chairman Martin's request, Mr. Riefler commented on the procedure for implementing the report of the Subcommittee on Defense

Planning for the Federal Open Market Committee, approved at the meeting on January 10, 1956. Mr. Riefler stated that, to carry out the last paragraph of the Subcommittee's report, he would suggest that Mr. Vest be requested to prepare drafts of resolutions to be adopted either by the Committee or by the Board of Governors to carry out certain of the recommendations of the Subcommittee; that Messrs. Rouse and Thomas be requested to prepare guides for open market transactions by the individual Federal Reserve Banks and for training of personnel as suggested in the Subcommittee report, with the understanding that they would consult with Mr. Leonard, Director of the Board's Division of Bank Operations, who had been working on defense planning matters for the Board and the System; both of these requests being with the understanding that he (Mr. Riefler) as Secretary would work with Messrs. Vest, Rouse, Thomas, and Leonard in preparing material to be brought before the Committee.

These suggestions were approved unanimously.

It was tentatively agreed that the next meeting of the Committee would be held on Tuesday, February 14, 1956.

Secretary's note: Subsequently, further checking resulted in setting Wednesday, February 15, 1956, at 10:45 a.m. as the date and time for the next meeting of the Committee.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary