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 27, 1956, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Balderston
Mr. Erickson
Mr. Johns
Mr. Mills
Mr. Powell
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Vardaman
Mr. Fulton, Alternate

Messrs. Bryan, Leedy, and Williams, Alternate Members, Federal Open Market Committee

Messrs. Leach, Irons, and Mangels, Presidents of the Federal Reserve Banks of Richmond, Dallas, and San Francisco, respectively

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Abbott, Parsons, Roelse, Willis, and Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account
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. Gaines, 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 March 6, 1956, were approved.

Before this meeting there had been distributed to the members of the Committee a report of open market operations covering open market operations March 6 through March 21, 1956, and at this meeting a supplementary report covering commitments executed March 22-26, inclusive, was distributed. Copies of both reports have been placed in the files of the Committee.

In his comments on the reports, Mr. Rouse stated that the money market has been tight during the last few days and that the market for Government securities has been under considerable pressure as a result of expectations of further demands on it and of tighter credit policy which had been accompanied by growing uneasiness and strong downward pressure on prices of intermediate- and long-term Government securities. Distribution and financing difficulties in corporate and municipal securities have also had an adverse influence on the Government securities market. Mr. Rouse said that the projections showed net borrowed reserves holding fairly steady for the next few weeks in a range about $500 to $600 million and that little action would be required in the near weeks ahead unless a marked change in policy was adopted.

In response to a question from Mr. Leach, Mr. Rouse commented upon loans made by a few large commercial banks in connection with the recent Treasury refinancing which had assisted in keeping down attrition. Mr. Rouse recalled that representatives of both the American Bankers Association and the Investment Bankers Association had discussed the responsibilities of banks in a Treasury financing operation, as he had reported at the meeting on March 6, and that the loans made by a few of the larger banks in support of the recent Treasury financing grew out of these discussions. Mr. Rouse indicated that the number of banks which had made such loans in support of the Treasury financing through the dealer mechanism was not large, that the rates on such loans were at 2-3/4 - 3 per cent, and that, in his opinion, this procedure made a noticeable difference in keeping down attrition on the Treasury's offering.

Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period March 6 through March 26, 1956, inclusive, were approved, ratified, and confirmed.

Mr. Young made a statement on the current economic picture concerning which a staff memorandum dated March 23, 1956, had been distributed. Mr. Young's statement was substantially as follows:

After mid-1954, economic activity passed swiftly through a recovery phase into an expansion phase. With the expansion movement eventually climaxed by near capacity output in many lines and with some key product markets overpressed with supply by the fall months of last year, individual sectors of industrial activity commenced to move unevenly and over-all advance to decelerate markedly. Judging the first quarter's level of activity from such broad aggregates as industrial production, nonfarm employment, gross national product, and foreign trade, economic advance finally came to a halt, at least temporarily.

The big question for the future is: Will activity hold on the present plateau, will advance be resumed, or will decline set in? Before commenting on this question, the latest highlight facts need brief review.

The Board's index of industrial production for March may be tentatively placed at 143, roughly the level it has held since October. Output of durable goods has been off some; nondurables output has been about steady; minerals and fuels output has been up.

Gross national product is being estimated at $399 billion for the current quarter compared with 397 in the fourth quarter of last year, but up about 6 per cent from a year ago. The modest increase in total product from last quarter has reflected mainly further growth in business fixed capital and inventory outlays, in State and local government purchases, and in consumer expenditures for services. Consumer goods purchasing at retail this quarter has been about stable.

The labor market has continued steady and generally strong, with sector changes small and offsetting. Average hours of work at factories are down from their highs of the late fall, but remain a little above a year ago. Reflecting smaller overtime, average weekly earnings are down slightly. Unemployment since last fall has shown little change. The scattered wage settlements so far this year have been on a more liberal basis than those concluded early last year.

Construction activity, though under a year ago, has been only moderately below last summer's record rate. Since nonresidential construction has still been climbing, the construction level reflects solely reduced residential building.

The price situation, which earlier in the year had shown signs of weakening, has very recently strengthened, with key price sectors firm to rising. Agricultural prices have been displaying more than seasonal strength.

Abroad in most industrial countries, consumer and business demands have continued to grow, though at a slower pace. Industrial prices abroad in the first quarter have also been firm to rising. Import demands for American industrial products and U. S. import demands have continued at close to high levels reached late last year.

Now to brief comment on the central question: Will economic advance be resumed; will a plateau of activity be maintained; or is decline in prospect? No unqualified answer is possible, of course, but most recent symptoms point to resumption of advance. These include:

(1) Much greater than expected plant and equipment expenditure plans on the part of business, indeed of all major lines of business;

(2) Widespread optimism of consumers with respect to the economic outlook generally and, in particular, with regard to their own financial position and income prospects;

(3) The maintenance of strength in used car markets, "satisfactory" seasonal upswing in new automobile sales, and very strong new truck sales;

(4) Continued capacity operations in steel and other important industries;

(5) An evident downward adjustment in the rate of business inventory accumulation from the fourth to the first quarter;

(6) Maintenance of housing starts since late fall at a 1.2 million unit rate; a very recent sharply increased volume of residential and other construction contract awards; and a generally freer flow of funds into mortgage investment;

(7) Strength of demand in key industrial and agricultural markets, with the more important price adjustments on the up side;

(8) Continued rise in economic activity in major industrial countries abroad;

(9) The further sharp rise in common stock prices without the benefit of much, if any, increase in stock market credit;

(10) The very great strength of business demands for credit at banks and through the capital markets and the maintenance of quite high levels of consumer demands for credit.

If the weight of current indication is in the direction of resumption of advance in activity, the next question to arise is: At what rate will advance occur and with what effects in demand pressure on prices? On this question, these points seem warranted. First, any new advance will need time before current data can produce a showing of momentum. Second, advance in real terms from the high current levels, with activity in key lines already close to capacity, will necessarily have to be slow. Third, with supplies of many materials tight at prevailing prices, with final product demands showing further expansion, with labor generally in a strong bargaining position, and with business psychology on the ebullient side, there is real hazard of a heavy resort to credit to supplement buying power in the present, with resulting accentuated demand pressure on prices.

Mr. Thomas made a statement on policy implications in the present situation. The statement made by Mr. Thomas was as follows:

As suggested by the foregoing description of recent economic developments, since the last meeting of this Committee, there has been an almost spectacular shift in views about the economic outlook. This change in viewpoint is supported not alone by the somewhat surprising statistics of business and consumer spending intentions, but also by current market developments and most dramatically by the course of events in the credit area. These events present forebodings for the future.

Three weeks ago there were reasons to hope that slackening in some areas would permit anticipated expansion in others without exerting undue pressures on productive capacity and the available supply of lendable funds. Today the big question is whether all the investment and consumer spending in prospect can be accomplished without inflationary developments supported by expansion in the volume and use of credit. Events of the past two weeks suggest the possibility that such an expansion has already begun in a big way.

Loans and investments of banks in leading cities have expanded in the past two weeks by what is probably an unprecedented amount. A preliminary estimate of the total at banks in leading cities shows an increase of over $2 billion, reflecting increases in business loans of $1.2 billion, in security loans of $300 million, and in Government securities of $500 million. Additions to U. S. Government deposits have exceeded $2 billion in the two weeks while the usual tax week decline in other demand deposits was less than the preceding week's increase. Comparisons with other recent years are distorted by differences in dates and also by the fact that the retirement of tax anticipation securities did not fall this year in the same reporting week, but even allowing for this the differences are striking.

Estimates of member bank required reserves on a weekly average basis have increased by over $400 million in the past two weeks. Projected increases and data for corresponding periods in other recent years were half as much. This expansion has been supported by some System repurchase operations but principally by additional member bank borrowing at the Reserve Banks, as well as from other sources. Borrowing at the Reserve Banks has generally exceeded $900 million and last Thursday and Friday approached $1,500 million.

Some increase in credit at this time was to be expected to cover taxes and other large payments customary around mid-March. There are indications, however, that some of the bank lending activity was also directly or indirectly for other purposes. It is likely that tax needs were used as an excuse for borrowing and that other means of meeting tax payments were utilized less than might have been expected. It is true that tax receipts by the Treasury have been larger than ever before, meeting the most optimistic expectations. The large growth in Treasury balances has been a factor causing both the increase in required reserves against such deposits held at member banks and the drain on reserves resulting from increases in Treasury deposits at the Reserve Banks. It is striking, however, that other deposits--built up prior to tax payments--have not yet been reduced correspondingly. Such a decrease may occur and bank credit will probably be reduced, but the extent of the reduction will be a matter of concern.

Another cause of the recent bank credit growth has been the Treasury refunding operation. Whereas this operation had the appearance of good pricing and successful flotation without Federal Reserve aid, it now seems evident that many of the new securities are being carried on bank credit and some probably by unwilling holders. Corporate and other holdings of the maturing issues that were expected to be redeemed to meet tax and other payments were exchanged instead, and the needed funds were met by borrowing from banks. Others were sold to dealers or to banks and thus called bank credit into use. As a consequence, although no direct Federal Reserve support was given the refunding operation, Federal Reserve credit was tapped. The aid was acquired through the back door, while the front door was kept closed and the repurchase window was sparingly used.

Another possibility, difficult to establish statistically as yet, is that many borrowers sensing the change in the economic outlook have decided to borrow as soon and as much as possible. Taking advantage of the tax excuse and leniency connected with Treasury financing, they may have actually borrowed more than necessary for those purposes. Banks in turn, taking the same advantages, have supplied these needs and increased their borrowings at the Reserve Banks. It is known that capital markets are threatened with congestion and there are reports of corporations attempting to cover prospective financing needs by arranging term loans at banks. Moreover, with this situation in view, some of the loans made for tax purposes may not be paid off promptly in order to retain funds for other purposes.

So far, some of these suggested motivations are based on conjecture, and cannot be established by current statistics. The test will come, however, in the near future. If the recent expansion is mostly for temporary needs, a larger than usual contraction should follow. It is also possible that the expansion that has occurred will itself put banks under restraint with respect to future extension of credit. If credit does contract correspondingly, then no additional restrictive action will be needed. If, however, credit contraction does not follow, then undue use of credit will be clearly indicated.

The question that is presented to the Open Market Committee and particularly to Reserve Bank officials is whether those who have entered the domicile of Reserve Bank credit through the back door are neighborly callers to borrow a little sugar or whether they will attempt to find lodgement for an extended period. If they don't leave of their own accord shortly, then there will be an indication that the credit obtained for temporary purposes--tax payments and Treasury financing--is being applied to other uses. Drastic action will then be needed to restore balance and avoid inflationary price pressures. Perhaps earlier restraining action would forestall developments that would later be difficult to correct.

Reserve projections presented assume fairly substantial decreases in deposits and required reserves for this week and next, and a moderate growth along with usual seasonal variations in subsequent weeks. These estimates indicate continuation of net borrowed reserves at a semi-monthly average level of close to $500 million, meaning member bank borrowings of $800 million to $1 billion, in the absence of further System operations. Under the circumstances, it would appear that no additional purchases would be needed, except perhaps for occational month-end repurchase contracts.

From a credit policy standpoint, the key to control seems to rest in member bank borrowing. Open market operations to force a further increase in the total volume of member bank borrowing would probably have a little additional restraining effect under present conditions. Reports now being received as to the locus of member bank borrowing are not encouraging. Rather than reflecting largely temporary borrowing by a changing group of banks, it seems that the bulk of the borrowing each week is done by a small number of banks, which have borrowed in most of the reserve periods during the past three months. This is continuous borrowing. Application of additional restraint in this area might be adequate to keep the credit situation in balance. Scrutiny of individual cases, where it appears that banks are misusing the borrowing privilege, is certainly called for, but if exuberance is as wide as appears a rise in the discount rate is needed.

Chairman Martin suggested that the Committee discuss all aspects of the economic and credit situation today in the light of the material presented by the staff and of the developments during the past three weeks. This should include consideration of the desirability of changing the wording of clause (b) of the first paragraph of the Committee's directive to the Federal Reserve Bank of New York in terms of whether the present wording was consistent with the existing situation; consideration as to whether the discount rate at the Federal Reserve Banks should be changed now or in the near future; and consideration of the degree of tightness that should be maintained in the market through open market operations. It would also be desirable to discuss the administrative problems involved in connection with borrowings by member banks at the Federal Reserve Banks. He then called upon Mr. Sproul who made a statement substantially as follows:

1. Practically all of the available data which, of course, covers the past, shows that there has been a leveling off of economic activity on a high plateau during the first two and a half months of 1956.

2. Most of the expectations, confirmed by some important indicators, however, now suggest that a renewal of growth in the economy is in prospect, if not in progress. Optimistic expectations are characteristic of expressed consumer intentions with respect to spending, of business projections of capital expenditures for plant and equipment, and of those who express themselves through the purchase of common stocks.

3. These optimistic expectations, among other things, must be assuming that the decline in residential building has ended, that the automobile industry will soon have production and consumption balanced at what are still high levels, that inventory accumulation is moderate and healthy, and that the agricultural situation will at least be no more of a drag on the economy in 1956 than it was in 1955.

4. While the resumption of the upward movement of 1955 seems to be coming more quickly than had been expected, therefore, there is yet nothing very concrete to show that we are faced with a revival of inflationary pressures, which we don't want, rather than with a renewal of economic growth, which we do want. There is no new dynamic force in sight which might be expected to push the economy beyond a sustainable rate of growth in the immediate future. In fact some of the forces which pushed the economy toward the limits of its then capacity in the fall of 1955, such as the rapid net expansion of consumer instalment credit and mortgage credit, the rapid building up of inventories, and the pressure of demand from the rest of the free world, which was also experiencing a widespread boom, seem less likely to strain our resources than in 1955. And these resources, too, will be expanding as the labor force grows and new plant and equipment come into production.

5. Meanwhile the demand for bank credit continues strong, and the banks quite generally report some rationing of credit to borrowers even though their loans have recently increased enormously, partly for special reasons. In the money centers the banks have been meeting some of their own needs for reserves by substantial intermittent borrowing from the Federal Reserve Banks. Now that it seems more likely that the next move in the business situation is to be up instead of down, there appears to be no relief in sight from this situation, and the banks may find it necessary to make a more fundamental adjustment in their positions, which would involve further sales of securities to offset a possible continued increase in loans. We have the makings of a difficult situation, here, for the immediate future. The banks have already reduced their liquidity position so greatly as to make it likely that further adjustments will have much greater effect on the money market than in the past. At the same time it is reported that some of the current demand for bank credit is developing out of the temporary, or short and intermediate term, requirements of business for capital expansion programs, which it is difficult to finance in a capital market which is showing some signs of congestion. We want to try to prevent an undue use of bank credit in the capital market, but under present congested conditions, an attempt to force a quick adjustment of this situation might mean we would have a real party on our hands which would go beyond anything we want or intend.

6. One mitigating factor, over time, is that the Federal budget is expected to show a cash surplus of around $5 billion in calendar 1956 whereas in 1955 it was just about in balance, so that there will be less call on the banks from this source. And it also seems reasonable to expect that the rate of growth of consumer borrowing and mortgage borrowing from the banks will slacken as compared with last year.

7. The blackest cloud on the further horizon, perhaps, continues to be the possibility of a run-up in prices growing out of immediate short supplies as in the metals and some other industrial materials, and out of expectations of labor settlements which will further increase costs and induce industry to try to pass on these increased costs in the form of higher prices. Competitive forces may help to keep this movement somewhat in check, but it is likely to pose a difficult problem for credit policy if we again appear to be approaching the general limits of productive capacity.

8. We don't need to borrow too much trouble from the future, however, to formulate policy for the next three weeks.

> Having maintained a steady checkrein on the supply of credit while the economic machine was slowing down to a fast trot, with only shifts in emphasis to mark changes in our estimates of the current situation, our policy now shows signs of beginning to bite more deeply as renewed economic growth becomes more likely. It would seem appropriate in these circumstances to test the forces of demand for credit by letting them press against the existing supply of reserves. This would involve a slight further shift of emphasis toward restraint without, at this stage, attempting to reinforce that restraint by committing ourselves to the forecast that inflation is inevitable unless we act vigorously, and it would also rule out an increase in the discount rate at this time.

Mr. Erickson said that conditions in New England remained good. In Massachusetts, in February, new automobile registrations were 6 per cent below February of last year, but used car registrations were up 10 per cent. Construction awards in February were 12 per cent above a year ago. Recent snow storms would affect figures which would cover the latter part of March. Bank loans have increased, Mr. Erickson said, but member banks recently have not been borrowing very much at the Reserve Bank. Mr. Erickson suggested that the Committee should "lean more heavily against the wind" and increase net borrowed reserves by whatever amount was necessary to maintain pressure. At this time, he would not recommend an increase in the discount rate but would observe the situation and be prepared to consider such an increase depending upon developments.

Mr. Irons said that the situation in the Dallas District was very strong. There was a great deal of optimism and some feeling was developing that an inflationary movement was occurring. Both bankers and nonbankers with whom he talked had suggested we might be having a "bubble on the boom." Their comments reflected more than confidence, showing some apprehension concerning developments. Until recently, there had been "continuous borrowing" at the Dallas Bank, Mr. Irons said, and the Bank had had discussions with several member banks who had been discounting quite continuously. Recently, such borrowings had declined fairly sharply. Mr. Irons stated that it did not help the Reserve Bank's position to have the Federal Advisory Council continuously coming back from its meetings with the Board, having made the suggestion to the Board that the discount window should be kept open at the Reserve Banks and not having had any indication that the Board or anyone else felt that the discount window should be closed a little once in a while. There was a feeling on the part of some of the directors that so long as banks had Government securities, they should be able to borrow at the Reserve Bank regardless of the purpose of the borrowing. Mr. Irons said that he would lean to the view expressed by Messrs. Young and Thomas in commenting on the economic and credit situation. He felt the Committee should maintain pressure and should resolve doubts on the side of restraint and even increase restraint. Mr. Irons said that he would not be ready to recommend a change in the discount rate today but that he would give much more consideration to it than he would have three weeks ago.

Mr. Mangels said that the situation on the Pacific Coast was much the same as three weeks ago and paralleled the picture given by Messrs. Young and Thomas in most respects. Developments since the previous meeting confirmed that the economy was moving on the up-side.

The employment picture was somewhat better than in November, December, and January; residential construction now is on a better level than toward the close of 1955; retail sales continue at a higher level than the high level of a year ago; and automobile sales in January and February were slightly below a year ago but have increased in recent weeks. Bank credit demand is very heavy, Mr. Mangels said, and banks are loaned up. They are even more selective now than they were a month ago in the kinds of loans they will make. Real estate loans have increased a little but the aggregate of industrial and agricultural loans is down. Despite this, borrowings at the Reserve Bank continue on a modest scale--in February, they were the lowest since last July--and there has been no occasion to talk with banks in the Twelfth District about continuous borrowing. Mr. Mangels did not think the economy was yet showing signs of getting out of hand. Increases in wholesale prices have not been reflected in inflationary advances at the retail level. With the Treasury financing out of the way, some of the recent borrowings at banks may be expected to be reduced as the April 15 tax date passes. Mr. Mangels expressed the view that under present circumstances the Committee should continue substantially the policy it has been following with perhaps some slight emphasis on the restraint side rather than toward ease. At the moment, he would not see an occasion to propose an increase in the discount rate.

Mr. Powell said that the Ninth District was coming out of a severe winter with expectations for a large volume of building, good automobile sales, good farm equipment sales, and considerable strength in the entire economy. This situation was being supported by expansion in bank credit. Farm income is down and bank deposits are moving to other areas but bank loans are rising in spite of those factors. Mr. Powell said that he would support the view that the discount rate might be increased as a restraining influence on the boom that is developing. The modest rise that might be made in the rate would not be harmful to any part of the economy, he felt, but would be a signal that the Federal Reserve thought the boom was being resumed, and that it could not go much farther without running into inflation. Mr. Powell thought that the System should move early rather than late in increasing the discount rate under conditions of this sort. If it waited for several weeks and if the boom continued as it seems to be developing, it would become more difficult to apply effective restraints, whereas a modest rise in the discount rate fairly promptly would represent a move to keep the boom under control.

Mr. Leedy said that conditions in the Kansas City District differed somewhat from those in other parts of the country and did not have so many plus signs or so much optimism. The district had participated in the increase in bank loans, but a considerable part of these have been in areas where agriculture has suffered and is suffering. Borrowing has not been widespread among banks in the Tenth District. The review presented by members of the staff gave cause for concern, Mr. Leedy felt, and if conditions continued to move in the direction reported, the Committee might be faced again with real inflationary threats. For the time being, he would not suggest an increase in discount rate, although he felt this might be in the picture in a short time. Public psychology seems to be pressing rather severely, Mr. Leedy said, and this was a delicate point that could be disturbed quite easily. Mr. Leedy also said he thought no change need be made at this time in the directive to be issued to the New York Bank. Pending the next meeting of the Committee, his preference would be to watch developments and, short of disrupting the market for United States Government securities, to let the reserve position of banks tighten as loan demand increased and other market factors brought added pressure.

Mr. Leach said that the Fifth District economy continued to move sideways at a very high level of activity. The recent upward revision in the SEC-Commerce estimates of business capital outlays for 1956 seems reasonable in the light of current announcements of planned industrial expansions within the district. The revision in these estimates, the continued strength of loan demand, the further edging up of many prices, and especially the renewed public confidence that he sensed seemed to warrant a policy of at least as much restraint as we have had in recent weeks and perhaps a little more. At the same time, Mr. Leach said that he did not see sufficient concrete evidences of speculative developments or undue expansion that would justify an announced tightening of Federal Reserve credit policy in the form of a discount rate increase. He thought that that might well come before too long but did not feel the time for such an increase had yet arrived. Mr. Leach went on to say that the Richmond Bank recently had visited several of the more persistent borrowing member banks for the purpose of discussing the situation with them, particularly as to their plans for the next year. The Bank had been doing this somewhat gradually but felt that this was the time for resumption of these visits.

Mr. Vardaman said that he had been thinking in terms of the possible advisability of an increase in the discount rate. After listening to the comments made thus far this morning, he was less certain that such an increase was needed at the moment. His present thinking would be along the lines suggested by Mr. Leedy which would include no change in the discount rate at the moment but would let the restrictive factors in the situation bring about increased tightness of their own volition.

Mr. Mills next made a statement which was substantially as follows:

> Two significant statements came out of the comments that prefaced the general discussion we are now carrying on. The first was Mr. Rouse's report of an attitude of gloom and possibly some fear and concern in the market. The second was Mr. Thomas' statement regarding the growth of bank loans, increasing use of the discount window, and the inflationary potential that lurks in that situation. From these two statements, it would seem that as a problem of policy thinking we must endeavor to reconcile the psychological attitude toward the market with the necessities of the economic situation, and particularly the very

rapid growth of bank loans, in a manner that will maintain a proper degree of pressure on reserves and a limitation on the availability of credit. As Mr. Leedy mentioned, this must be done without risking a disruption in the market for U. S. Government securities.

It has been my observation over the past several months that as long as negative free reserves have averaged around $300 million symptoms of rather acute deterioration in the money market have occurred only on occasions when there has been an abrupt increase in their level above $300 million either temporarily or continuously. That may be coincidental. However, to the extent that the theory holds water, we might be wrong to be too passive and to allow the market and the reserve positions of banks to tighten against themselves. Instead, we might better think in terms of bringing the level of negative free reserves up to the $400 or $500 million level through a more gradual process and, in doing so, keep the "feel" of the market and bring relief if we should find our actions too severe. Such a condition would be reflected in new concern on the part of the commercial banks for their liquidity and an inclination to deny credit which should be extended. All of this adds up to a policy of moving ahead cautiously. To support that position, I point to the fact that the reserves introduced into the market during the last two days through direct purchases of Treasury bills and repurchase agreements had an immediate and salutary effect on market sentiment. This improvement was not justified by any factual evidence of a shift downward in the level of negative free reserves. In other words, a little judicious help to the market at this time may prove necessary to carry it along until the level of negative free reserves can be brought up to $500 million.

As to the discount rate, in my opinion, an increase might be too disturbing until the sense of uncertainty in the market has been alleviated and there is a better understanding of the trend of economic events. An increase in the discount rate should be seriously considered, but when there is a better perception on the part of the general public of such a necessity.

Mr. Robertson said that he was glad that decisions on monetary and credit policy in times like this were made by a Committee rather than by any one individual. He had not always agreed with the group decisions but he felt it clear that over the several years during which he had been a member of the Committee, the decisions made by the group were much better than those of any one individual. He was more and more impressed by the thought that had gone into these decisions.

Mr. Robertson went on to say that his view on the current situation differed somewhat from the view expressed earlier but that he was not confident that his view was more nearly correct than would be the composite view that would be reached in the course of the discussion. He then made a statement substantially as follows:

> As our economic report this morning has clearly indicated, the evidences of strength in the business situation have snowballed since our last meeting. It now seems clear to me that our job in the coming weeks and months is going to be to try to curb overconfidence, speculation, and inflation rather than to stimulate recovery.
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> First came the news of our most recent consumer finances survey, showing great consumer confidence and widespread plans to purchase homes and consumer durable goods. Then came the report of the survey of business plans for plant and equipment expenditures, which indicates a spectacular rise of 22 per cent in spending this year over last. In addition, the latest available information points to an end to the decline in two major weak spots in the economy, namely, housing and automobiles. Recent data on building contract awards and applications for mortgage insurance to the FHA and VA are strong and much higher than earlier expectations. Automobile sales are now showing a vigorous seasonal increase.
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> In the field of prices, too, every time one looks at the daily press these days he sees more announcements of price increases, from raw materials to finished products, from steel scrap to tin cans, from raw copper to building materials, and from freight rates to laundry services. The only broad area where price weakness still exists is in agriculture, and even there, there are signs that the decline may be coming to a halt. Undoubtedly, any new farm legislation would be a prop to farm prices and incomes. All in all, the wage-price spiral is showing definite signs of new life. Large wage and price increases appear inevitable in steel, and these are likely to spread to other basic industries.

All this adds up to strength, great strength, in our business situation--strength that calls for the firm application of monetary restraint if we are to avoid a substantial general price rise and to avoid bringing discredit to the role of credit and monetary policy in a practical program of economic stabilization.

Consequently, it is my opinion that this Committee should move toward greater restraint through open market operations--toward maintaining an even larger volume of net borrowed reserves--than we have aimed toward during the past few weeks. In addition, I think we should immediately start thinking in terms of an increase in the discount rates in order to flag the danger inherent in the prevailing boom psychology. As to the Committee's directive, certainly we should eliminate today the reference to our taking into account deflationary tendencies in the economy.

Mr. Shepardson said that Mr. Robertson had expressed views essentially the same as his. He felt that there were indications on the upside which definitely overbalanced any precautionary attitudes that might have been apparent on the part of business or the public a short time back. He recalled the period in 1955 when pressures were building up and when the Committee looked for more positive evidence of the need for restraining actions than seemed apparent at the time. By the time the Committee saw that evidence, it was a little behind the time when it should have acted. Mr. Shepardson said that it seemed to him the indications were sufficiently strong now to warrant more restrictive action. If a decline in loans extended by member banks were to develop along the lines mentioned as a possibility by Mr. Thomas, it might justify deferring a decision to take action on the discount rate at this time. However, Mr. Shepardson felt that an indication on this point would be had before the next meeting of the Open Market Committee. Therefore, the Committee should have very clearly in mind the possibility for needing an adjustment in the discount rate within the next week or two, rather than carrying the matter over until after the next meeting of the Committee. Mr. Shepardson said that he would also like to see a change in clause (b) of the Committee's directive to the New York Bank, so as to eliminate the instruction that operations should take into account any deflationary tendencies in the economy, since he did not believe that such an instruction was appropriate under existing circumstances.

Mr. Fulton said that the Cleveland District was still going full blast, that there was no discernible letup in activity, and that he could see no possibility of such a letup. He was concerned particularly by the great expectations of business for plant and equipment expansion during the coming year, and he described the extreme optimism reflected at a meeting of Cleveland businessmen which he attended last evening. This attitude was encouraging still further plans for increases in capacity. These plans were so vast, he said, that if the capital issues for financing them were put into the market, there was bound to be great additional pressure on materials, wages, prices, and other elements in the economy. Mr. Fulton observed that every time net borrowed reserves were permitted to drop to around the $100 million level, the result was that corporations were encouraged to come in to the market for more funds. He said that he concurred strongly with the view expressed by Mr. Powell that an increase in the discount rate would be desirable at this time without any undue delay. One effect of this, as suggested by Mr. Thomas, would be to deter new capital issues which were now being put out in such large volume under the favorable rate conditions that exist. Mr. Fulton also said that he thought the Committee's directive should be changed in the manner already suggested during this meeting.

Mr. Williams stated that actual and prospective activity is strong in the Philadelphia District. He presented the results of a recent survey showing that capital expenditures now in prospect for 1956 were some 24 per cent ahead of the expenditures that were anticipated in a similar survey made in the fall of 1955, and 16 per cent ahead of actual outlays in the district during that year. It was evident that the attitude of businessmen had changed markedly since the fall survey, Mr. Williams said. He also referred to borrowing among member banks in the Philadelphia District, stating that there is a hard core of steady borrowers: out of 560 banks, 7 have accounted for about three-fourths of the borrowings at the Philadelphia Bank since last July. The Bank had talked with four of these member banks, and Mr. Williams said they were fully aware of the dangers in the situation. While he might be skeptical of their capacity to cease to be steady boarders, he would hesitate at the moment to increase the discount rate. However, three weeks from now perhaps something should be done to discipline the banks by way of the price route.

Mr. Bryan said that the staff of the Atlanta Bank had presented nothing that differed in any significant way from the material that had been furnished to the Committee by Messrs. Young and Thomas regarding the economic and credit situation. In talking with directors of the Atlanta Bank and others, Mr. Bryan said that he personally had been impressed with the extent of the excitement that seems to be prevailing regarding the business outlook. He could not find any one, even in the textile industry, who was not looking forward to the prospect with a great deal of anticipation. He noted that he had taken the view in the past that the System should not take actions until it saw indications of the need for such actions in the information available to it. At this time, he felt that we had seen enough. We are getting into a situation in which the extraordinary excitement and the extraordinarily rapid increase in wage rates and wage costs make one of two things inevitable: (a) there would be a substantial advance in prices, in which event the System would have to furnish the money to carry on the economy at a new high price level--an inflated level, or (b) the System would refuse to furnish the money to support that advance, in which case unemployment would be created and consumers would be unable to take the products of industry off the market. Mr. Bryan said that he thought the System had no choice now. Easy money, or money as easy as the country has had it, should be out. He doubted the wisdom of merely letting the market tighten against an existing money supply. This would cause more difficulty in his opinion than another course, in consequence of which it was his view that at this moment the System should move overtly in the direction of restraint. The only remaining question was how to move and by what instrument. At this particular juncture, Mr. Bryan said that he believed it would be preferable to make clear to the banking system at the present time in no uncertain terms that the replenishment of their reserves at the discount window was going to cost more money than it had been costing. He felt that this would be a better course that would produce less convulsion than if the System waited and later on nudged the banks by increasing open market pressures. He would favor an increase in the discount rate quickly, although it was not important whether that was done today or a little later. As for the Committee's directive, he would eliminate the reference to carrying on operations so as to take into account deflationary tendencies in the economy.

Mr. Johns said that in the Eighth District business conditions appeared to differ from those reported nationally in two significant respects, both on the weaker side. First, contract awards were running behind the national rate; second, the employment picture was not as good as in the country as a whole because of layoffs that have taken place both in private industry and because of cancellation of some prime defense contracts which have resulted in layoffs by defense subcontractors in the district. Except for these factors Mr. Johns said that the Eighth District picture was about as reported nationally. Mr. Johns also commented on the interpretations being given to the latest survey of consumer purchasing intentions. He was not so sure that the survey was all "strength and optimism." On the contrary, the country might be in or near the end of a boom in consumer spending. Whether the economy would be rescued from that for a long period of time by the obvious bulge in plant investment could not be determined at this time. With respect to borrowing at the Reserve Banks, Mr. Johns said that as reported by Mr. Erickson for the First District, borrowing in the Eighth District had been down to the $4 or $5 million level recently. There were very few borrowers, and these were smaller banks, borrowing in smaller amounts. A few weeks ago the St. Louis Bank had had occasion to discuss the matter of borrowing with one of the larger banks, and there had been a marked change in that picture recently. Mr. Johns went on to say that he did not intend to play down the importance of the optimistic implications of the survey of consumer intentions. The group working with him at the St. Louis Bank had had an abrupt change of mind within the past three weeks, to the extent that the one member, who three weeks ago thought a decrease in the discount rate might be called for, now felt that an increase might be in order. Mr. Johns said that he was not a member of that group but that these shifts in view brought out the rather dramatic change in thinking. The consensus of the St. Louis group was that the time had not come to increase the discount rate, but that the time has come to begin thinking about increasing it. Three weeks from now they might favor such an increase. Mr. Johns said that at this time he would be inclined to resolve doubts on the side of further restraint, but without a change such as an increase in discount rates would indicate.

Mr. Szymczak said that we have a situation due to the tax period that occasions caution, as had been indicated by Mr. Mills, in tightening the pressures on the money market. At the same time, potential growth in the economy, whether natural or inflationary, suggested that the Committee look at negative free reserves and allow them to increase. The Committee should also look at borrowings at the Federal Reserve Banks and see whether banks are borrowing for capital purposes or for purposes for which the discount window is intended. Mr. Szymczak did not think this was a question of opening or closing the discount window. It was a question of the purpose of borrowings and where the funds were going. In his opinion, an increase in the discount rate, if it comes, probably should not come until after the tax period was passed; i.e., around the middle of April.

Mr. Balderston said that early in the year he had the feeling that the economy was moving sideways and that the Committee's directive should reflect what seemed to be the possibility of a topping off of the rise. At that time it appeared that the advance was decelerating. Now, Mr. Balderston said he sensed a strong wind blowing, one that the Committee could not ignore. In his judgment it was time to change the Committee's directive to the Agent Bank and he felt that the official record should indicate the recognition by the Committee of the strong wind to which he and others had referred. He suggested that clause (b) of the first paragraph of the directive which now provides that operations shall be with a view "to restraining inflationary developments in the interest of sustainable economic growth while taking into account any deflationary tendencies in the economy" should be changed; for example, it might read "to protecting long-term growth and stability in the economy by curbing clear inflationary developments."

As a second point, Mr. Balderston said that he felt the time had come to use the price of money more effectively. He noted Mr. Williams' remarks about a hard core of borrowers at the Reserve Banks who have been borrowing about three-fourths of the total amount discounted. He felt something very constructive had been accomplished by talking with some of these banks, with the result that some of them recently had been borrowing less. However, in Mr. Balderston's view the time had come to supplement open market operations by a change in the discount rate which would be not only an increase in the rate at which member banks get their accommodations from the System, but which would be reflected in the rates charged by the member banks. His preference would be for action to increase the discount rate as expeditiously as could be managed in the various districts where the officers and directors considered such action appropriate.

Mr. Balderston's third point had to do with the matter of speed. The time lags against which the System must work impressed him. He now wished the System had acted sooner and more vigorously last year when certain commitments were being made by businessmen that were now showing up in business loans, price increases, and in other ways. But it would be a defeatist attitude for the System to argue that those commitments having been made, it cannot take action to influence wage and price movements. In his view, the country has a price-spiral now in the making. There was the freight rate increase which was having a pervasive effect throughout the economy; there was the increase in the minimum wage rate which was having an effect in many of the Southern areas. As price rises take place during the coming months, they will tend to be built into the economy in a way that will be detrimental. Mr. Balderston said that he felt the System's action should be decisive enough to cause businessmen to realize the danger of a wage-price spiral and not to abdicate when they face wage negotiations this spring and summer in the way they would if they felt they could simply increase their prices and continue to sell the goods. He hoped that labor unions would appreciate the dangers of a wage-price spiral. Translating this to the discount rate, Mr. Balderston said that he would be sympathetic to an increase of 1/2 per cent, to a 3 per cent level, as one which would meet the needs of the economic situation better than an increase of 1/4 per cent to the 2-3/4 per cent level.

Chairman Martin said that these "go-arounds" on conditions did not commit anyone and were simply a means of exchanging information. Before he started his comments on the situation, he would like to reiterate the remarks that Mr. Robertson had made concerning the value of group judgments and decisions. More and more these meetings showed the nature of the System in the technique of composite judgments, difficult as it is to achieve them. He himself had been one of the chief offenders in stating at times that he wished the System had been more vigorous or had done something different than it had. We could always do better in hindsight, the Chairman said, and it was easy to lapse into an attitude, from the market standpoint, of saying "I knew the market was going up." This was emphasized at a meeting that he and Mr. Sproul attended last Friday at which a critique of Federal Reserve policy during the past two years was given. Chairman Martin said that he agreed in hindsight with what that speaker said in emphasizing the need for action by the System sooner than it had been taken. His reason for mentioning this, Chairman Martin said, was that it was easy for a person to convince himself that he had been right and the others wrong.

In thinking of the group as a whole, the Chairman remarked that one of the problems in arriving at group decisions was the attitude or approach that individuals took. Over a period of time we come to know that some of us lean to "hard money" and some lean to the "easy money" view, and some are neither. There are some who lean more to the status quo and some who lean to experimentation. Each of us ought to analyze ourselves as individuals. As he had gone through the minutes of previous meetings, he had noticed these tendencies on the part of different individuals, and these were things that had to be weighed in arriving at a group judgment.

There was also a great problem, Chairman Martin said, in dealing with the psychological factors. There were times when psychology might be the overriding influence in the market. When a situation like that develops, it is necessary to make a judgment on the market.

In the present situation, Chairman Martin said that in his opinion an increase in the discount rate might have less effect on the market than if the Committee permitted the market to tighten unduly along the lines on which it had already been moving. This was a pure judgment. It might be, as Mr. Sproul had suggested, that an increase in the discount rate would incite a party which would be more of a party than was wanted; but the System might incite that party also by a "dribbling" method of letting the market tighten on itself while expecting or wondering about an increase in the discount rate.

Chairman Martin went on to say that he thought it obvious that the Committee did not have a clear position at this meeting such as it had, for example, last November. His own view was that the Committee should change its directive to eliminate the reference to actions which would take account of deflationary forces. The Committee has had a tendency, he said, to permit its directive to remain unchanged too long and not to recognize shifts in the economy with appropriate changes in the wording. It seemed to him that the directive, which now required that operations take account of deflationary forces, was not in keeping with the majority sentiment expressed at this meeting. He thought that wording along the lines suggested by Mr. Balderston would be appropriate but he did not think the precise wording of great importance so long as the Committee had reached the point where it was resolving doubts on the side of tightness. It was clear that the consensus at this meeting was unanimous for moving toward tighter conditions in the money market.

As to the discount rate, Chairman Martin said that the views expressed at this meeting indicated that a majority favored waiting a little longer before taking overt action through raising the rate. Personally, he was inclined to take this overt action at an early date, feeling that it would create less uncertainty and perhaps be more of a palliative than if it were delayed while market forces were permitted to tighten reserve positions. This was a judgment, and it should be recognized that money and credit policy cannot do things with a fine degree of accuracy and cannot do the whole job. But over the next few weeks his thought was that the earlier the discount rate was increased, the better.

Chairman Martin noted that Mr. Szymczak had mentioned the tax payment date in connection with the timing of an increase in the discount rate. The Chairman's reason for doubting the use of that as a guide was that the wage-price spiral that Mr. Balderston had referred to, and the psychology that seemed to exist, rather frightened him at the moment. The Chairman said that he was not impressed with the catastrophy that might result from a miscarriage in pointing up the issue. He thought that the tendency of businessmen and consumers today was sufficiently optimistic so that we were not likely to upset the canoe by overt action. In fact, this was a period when one could jump around in the canoe and not worry about upsetting it or having it sink. It was his view that a strangulation procedure of letting reserve positions tighten from loan and other market factors might be more disturbing than a prompt increase in the discount rate.

Chairman Martin then referred to the suggested change in clause (b) of paragraph (1) of the Committee's directive to the New York Bank and inquired whether any of the members of the Committee felt that the change should not be made at this time, or if they favored a change, whether they had a preference for wording.

During the discussion of this point, Mr. Sproul made a statement substantially as follows:

> This turn in the outlook, emphasized today, has come about very quickly. Just as we have had to revise our opinions, the commercial banks are now having to consider what adjustments they are going to make to meet a situation which they had thought to be temporary but which now shows signs of being of longer duration. This should mean that our policy of mild restraint, particularly if it is now stepped-up a little, will press harder on the banks than it has been doing. So far as the capital market is concerned this change is already taking place; a substantial readjustment in rates is going on right now, and there has been some backing up of issues particularly in the revenue bond field. In such circumstances, as we know, there is always the possibility of expectations of difficulty outrunning the facts, and making acute what is already a difficult situation. We do not want to precipitate such a development if we can avoid it.
>
> An even more difficult problem has been referred to--the possibility of our running into a cost-price spiral--

> growing out of increased wages and other costs which producers attempt to pass on to consumers. This might encounter consumer resistance which would have a dampening effect on production and employment, or what seems more likely in the present state of the economy it might generate an inflationary spiral. In the first case, question could be raised as to whether it is the responsibility of the central banking system to make credit easier and cheaper to obtain in order to try to head off a decline in production and employment. The second and more difficult case would raise questions as to whether the central banking system should make credit so dear and difficult to obtain as to cause a decline in production and employment as the lesser of two evils. We haven't yet had to run head-on into the philosophy of the Employment Act of 1946 to that extent and it wouldn't be easy, so maybe we had better hope that some degree of economic responsibility on the part of management and labor will avoid presenting us the problem in serious form.

Mr. Williams expressed the view that the System could not disclaim responsibility under these circumstances.

Mr. Sproul said that he was not suggesting that the System disclaim responsibility. To the extent that it had the power it should exercise it. But it should face the fact that if we are going to carry through against the claims of organized labor and the acquiescence of big business, we are going to have to have a real knockdown-and-drag-out fight as to whether monetary policy is to be so severe as to bring on substantial unemployment and reduced income with all that that implies.

Mr. Johns inquired whether this meant that the System should do nothing to restrain inflationary developments.

Mr. Sproul responded that his statement did not mean that the System should do nothing. He was saying that he did not think a movement of the sort Mr. Balderston had referred to could be headed off, under present circumstances, by monetary action alone unless we adopted a very severe policy. He was saying that while we need to keep reserve positions under restraint, and even more restraint than we had anticipated a few weeks ago, the Committee would be fooling itself if it thought that it could prevent this wage-cost spiral short of adopting a very severe monetary policy. Whether the System would have the assent of the Government and of the public in such a course seemed to Mr. Sproul to be a real question.

Mr. Bryan suggested that the longer the System delayed in taking restrictive action, the more severe the measures would have to be.

Mr. Sproul said that he thought this was possible but that severe action would be required in any case to stop the wage-cost spiral. He was merely suggesting caution in assuming that the System had the answer to the wage-cost spiral.

Mr. Vardaman said that Mr. Sproul's warning was quite timely. In his opinion, if the System moved to such a degree as would be necessary to stop the wage-cost spiral, it could easily result in the destruction of the System. He thought the System should make its contribution but should do so with the full realization that it does not have the power or the authority or the responsibility to cure the whole situation.

Mr. Shepardson said that, recognizing that the System did not have the power without cataclysmic action to stop a wage-price spiral, certainly it should be able to exercise some restraint in the present situation. He was very much in accord with the views Mr. Balderston had expressed that some definite action on the part of the System would strengthen the hands of industry in wage negotiations coming up. He did not think this would stop wage increases, but it could have a healthy restraining effect.

Mr. Sproul added the comment that he was not suggesting that the System not do something. He was arguing that the Committee not be carried away with grandiose ideas of what it might accomplish toward combating a wage-price spiral unless it moved in a very severe way. His view was that we were faced with a much more serious problem than the tools of the central banking system, alone, could be expected to control.

Chairman Martin said that he had tried to emphasize this same point in his remarks: the Committee could not expect monetary policy to achieve all of the task. However, the threat of a wage-price spiral was so strong today that the System would be derelict in its duty and obligation if it did not do all that it could do.

Mr. Mills said that he would add the comment that if each person at this meeting were to return to his desk and carry out the responsibility set before him, this would mean that in a short time there would be an increase in the discount rate, negative free reserves would rise to the $500 million level or above, and there would be a widespread effort to consult with member banks about their use of the discount window. In combination, the results of such actions could be fearsome in their effects upon the psychology of the market and of the business community.

Chairman Martin commented that if plans for capital expansion should turn out to be as large as was now indicated, it might be desirable to give a warning at this stage to the firms planning to use the capital market for financing such expansion, rather than to wait until they had gotten into trouble through having made their plans in anticipation of being able to finance the expansion on a lower cost basis.

Mr. Sproul said that there had already been a warning. He thought the aim should be to keep bank credit from getting too much involved in the capital markets, but the Committee should avoid action which would cause strain or a crisis in a situation which is now in process of substantial readjustment.

Chairman Martin stated that he did not know whether overt action or permitting the market to tighten further under present conditions would actually cause more damage to the capital market. He thought there probably were as many views on this point as there were individuals at the meeting.

During further discussion, Mr. Leach stated that one of the main reasons he was not in favor of an increase in the discount rate immediately was the feeling that had been expressed concerning the adjustments taking place in the capital market. At the same time, he felt that an increase in the discount rate would be the next action to be taken to apply further restraint. He did not think it would be desirable to try to tighten the net borrowed reserve position further through open market operations at this time, and would dislike to see any action taken which would result in a severe shock to the bond market.

Chairman Martin then turned to the consideration of the Committee's directive to be issued to the Federal Reserve Bank of New York, stating that he gathered that a number of those present would favor a modification in clause (b) of the directive along the lines suggested by Mr. Balderston.

There followed a considerable discussion of clause (b) of the directive, at the conclusion of which it was agreed unanimously to delete the words "while taking into account any deflationary tendencies in the economy" so that the clause would read "to restraining inflationary developments in the interest of sustainable economic growth."

In response to a question from Chairman Martin, Mr. Rouse stated that he would have no suggestion for change in the limitations contained in the directive.

Thereupon, upon motion duly made and 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, 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 referred to the authorization for repurchase agreements, stating that he would suggest that the existing authorization be renewed and that at the next meeting the Committee consider whether it wishes to have this authorization come up at every meeting or whether it should be reviewed at longer intervals, such as at the organizational meeting of the Committee held in March of each year.

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.

Mr. Leedy stated that as a result of Chairman Martin's comments at the meeting on March 6, 1956, regarding the desirability of training additional personnel in open market matters, he had raised with the Secretary the question whether it would be appropriate to mail a copy of the weekly report of open market operations prepared at the Federal

Reserve Bank of New York to the vice president in charge of the Denver Branch. Mr. Leedy said that Vice President Puckett of that Branch was not assisting him regularly on open market matters but that he felt it would be helpful to Mr. Puckett in developing more knowledge of the open market operations if he could receive the report regularly. It was Mr. Leedy's understanding that in the past distribution of this report had been confined to persons actually assisting the members of the Committee or other Reserve Bank Presidents in open market matters, and for that reason he had suggested that the Secretary bring the matter up for discussion.

Chairman Martin stated that he would favor anything which would assist in developing the personnel throughout the System that would have to take over these matters in the future. It was incumbent upon the members of the Committee to attempt to develop personnel in this manner. He did not see how this could be done satisfactorily if the degree of restriction on open market material continued to be as great in the future as he thought it had been at times in the past.

Mr. Leach stated that he felt a distinction should be made between distributing the report for informational purposes and distributing it to persons who in the opinion of a Reserve Bank President or a Committee member should receive the material for educational development. He did not think the report should be widely distributed for purposes of general information, but it would be appropriate to send it to him for educational training regardless of whether he was a branch manager or in some other position.

In response to a question from Mr. Johns, Chairman Martin stated that no suggestion had been made that minutes be made available to such individuals but that in his view the same general approach should govern.

> Thereupon, it was agreed unanimously that it would be appropriate for a President of a Reserve Bank or a member of the Committee to request that the weekly open market report or other open market material be made available to individuals for training purposes even though such individuals might not at the time be actively assisting in connection with open market matters and regardless of where the individual was serving within the Federal Reserve System. In taking this action, it was understood that the Secretary would be notified of all such requests.

Chairman Martin referred to Mr. Sproul's memorandum of March 21, 1956, giving his appraisal of certain continuing operating policies of the Federal Open Market Committee, stating that the memorandum was very stimulating as well as provocative. He suggested that all members of the Committee and other Reserve Bank Presidents study the material carefully and that a day be set aside for a separate meeting at which this subject would be considered. He thought that it was not desirable to include consideration of this matter on the agenda within the regular meeting of the Committee, and it was his suggestion, therefore, that the next meeting of the Committee be scheduled for Tuesday, April 17, 1956, with the understanding that the Committee would also meet at

9:30 a.m. on Wednesday, April 18, 1956, for the express purpose of considering the procedure that it might wish to follow in re-examining the continuing operating policies to which Mr. Sproul had referred.

Mr. Sproul stated that he thought there were two questions involved. One was the matter of procedure and whether the continuing operating policies should be adopted annually or whether they should be considered at each meeting of the Committee. The other question had to do with the substance of these statements of operating policy and the whole present general policy of the Federal Open Market Committee with respect to operating in the Government securities market. Mr. Sproul said that he thought the first of these questions might be considered and a decision reached in a meeting such as Chairman Martin suggested for April 18, whereas the second question would require a much longer period of consideration and study.

Chairman Martin stated that he would agree with this view.

Chairman Martin's suggestion for the meeting to be held on April 17 and 18 was approved unanimously.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary